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Hong Kong

29 June 2012

The Directors
Inner Mongolia Yitai Group Company Limited
Inner Mongolia Yitai Coal Company Limited
China International Capital Corporation Hong Kong Securities Limited
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to the Target Business Group (as defined in note 1 of Section II below) for each of the three years ended 31 December 2009, 2010 and 2011, prepared on the basis set out in note 2 of Section II below, for inclusion in the Prospectus of Inner Mongolia Yitai Coal Company Limited (內蒙古伊泰煤炭股份有限公司"Yitai Coal") dated 29 June 2012 (the "Prospectus") in connection with the initial listing of the shares of Yitai Coal on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Pursuant to an acquisition agreement dated 29 May 2012 entered into between Yitai Coal and Inner Mongolia Yitai Group Company Limited (內蒙古伊泰集團有限公司"Yitai Group"), Yitai Coal will agree to acquire the Target Business Group, which is carried out by the relevant entities and the business divisions controlled by Yitai Group (the "Acquisition"). Particulars of the entities and the business divisions included in the Target Business Group are set out in note 1 of Section II below.

Yitai Group and the entities included in the Target Business Group were established in the People's Republic of China (the "PRC") and have adopted 31 December as their financial year end date for statutory financial reporting purposes. The financial statements of these entities were prepared in accordance with the relevant accounting principles and financial regulations in the PRC applicable to these entities and all of which were not audited by us. For the purpose of the Acquisition, the Directors of Yitai Group (the "Directors") have prepared the combined financial statements of the Target Business Group which include the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Business Group for the Relevant Periods, and the combined statements of financial position of the Target Business Group as of 31 December 2009, 2010 and 2011 and a summary of significant accounting policies and other explanatory information, in accordance with the relevant accounting principles and financial regulations in the PRC (the "PRC Combined Financial Statements"), which have been audited by Da Hua Certified Public Accountants (大華會計師事務所, "Dahua"), a certified public accounting firm registered in the PRC.

The financial information set out in this report, including the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Business Group for the Relevant Periods, and the combined statements of financial position of the Target Business Group as of 31 December 2009, 2010 and 2011, and a summary of significant accounting policies and other explanatory information (collectively, the "Combined Financial Information"), has been prepared based on the PRC Combined Financial Statements and the relevant management accounts of the Target Business Group on the basis set out in note 2 of Section II below, after making such adjustments as appropriate to comply with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

The Directors are responsible for the preparation of the Combined Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Combined Financial Information that are free from material misstatement, whether due to fraud or error.

It is our responsibility to form an independent opinion, based on our audit, of the Combined Financial Information and to report our opinion thereon. For the purpose of this report, we have carried out an independent audit on the Combined Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

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

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

In our opinion, for the purpose of this report, the Combined Financial Information, prepared on the basis set out in note 2 of Section II below, gives a true and fair view of the combined results and cash flows of the Target Business Group for each of the years ended 31 December 2009, 2010 and 2011 and of the state of affairs of the Target Business Group as of 31 December 2009, 2010 and 2011 in accordance with IFRSs.

I. COMBINED FINANCIAL INFORMATION

(A) Combined statements of comprehensive income

	Notes	Year ended 31 December 2009 RMB '000	2010 RMB '000	2011 RMB '000
REVENUE	6	5,274,598	9,268,262	10,848,936
Cost of sales		(3,614,665)	(6,358,873)	(7,515,201)
Gross profit		1,659,933	2,909,389	3,333,735
Other income	6	55,111	118,267	128,483
Selling and distribution costs		(299,689)	(372,771)	(423,373)
Administrative expenses		(120,191)	(122,735)	(158,081)
Other expenses		12,278	(20,577)	28,666
Finance income	7	7,004	13,724	4,177
Finance costs	8	(367)	(392)	(417)
PROFIT BEFORE TAX	9	1,314,079	2,524,905	2,913,190
Income tax expense	11	(293,535)	(559,473)	(617,611)
PROFIT FOR THE YEAR		1,020,544	1,965,432	2,295,579
Other comprehensive income		—	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,020,544	1,965,432	2,295,579
Attributable to:				
Owner of the Target Business Group		928,282	1,792,751	2,034,946
Non-controlling interests		92,262	172,681	260,633
		1,020,544	1,965,432	2,295,579

(B) Combined statements of financial position

	Notes	As of 31 December 2009	2010	2011
		RMB '000	RMB '000	RMB '000
NON-CURRENT ASSETS				
Property, plant and equipment	13	1,145,653	1,051,352	1,054,737
Prepaid land lease payments	14	47,157	60,327	58,948
Mining rights	15	279,351	258,180	235,820
Other intangible assets	16	455	336	268
Deferred tax assets	17	23,624	21,161	10,908
Total non-current assets		1,496,240	1,391,356	1,360,681
CURRENT ASSETS				
Inventories	18	157,780	181,921	338,476
Trade and bills receivables	19	209,748	548,995	675,674
Prepayments, deposits and other receivables	20	98,886	135,562	110,538
Restricted bank deposits	21	10,974	7,087	7,120
Cash and cash equivalents	21	760,564	1,122,463	917,190
Total current assets		1,237,952	1,996,028	2,048,998
CURRENT LIABILITIES				
Trade and bills payables	22	155,488	229,367	237,265
Other payables and accruals	23	755,486	820,300	542,588
Taxes payable		30,518	68,164	42,329
Total current liabilities		941,492	1,117,831	822,182
NET CURRENT ASSETS		296,460	878,197	1,226,816
TOTAL ASSETS LESS CURRENT LIABILITIES		1,792,700	2,269,553	2,587,497
NON-CURRENT LIABILITIES				
Other non-current liabilities		5,631	6,022	6,440
Total non-current liabilities		5,631	6,022	6,440
NET ASSETS		1,787,069	2,263,531	2,581,057
EQUITY				
Equity attributable to owner of the Target Business Group		1,638,531	1,942,312	2,377,205
Non-controlling interests		148,538	321,219	203,852
Total equity		1,787,069	2,263,531	2,581,057

(C) Combined statements of changes in equity

	Attributable to owner of the target business group	Non-controlling interests	Total equity
	RMB '000	RMB '000	RMB '000
At 1 January 2009	1,715,130	60,326	1,775,456
Total comprehensive income for the year	928,282	92,262	1,020,544
Dividends to non-controlling interests	—	(4,050)	(4,050)
Distribution to the owners of the Target Business Group	(1,004,881)	—	(1,004,881)
At 31 December 2009 and 1 January 2010	1,638,531	148,538	1,787,069
Total comprehensive income for the year	1,792,751	172,681	1,965,432
Distribution to the owners of the Target Business Group	(1,488,970)	—	(1,488,970)
At 31 December 2010 and 1 January 2011	1,942,312	321,219	2,263,531
Total comprehensive income for the year	2,034,946	260,633	2,295,579
Dividends to non-controlling interests	—	(378,000)	(378,000)
Distribution to the owner of the Target Business Group	(1,600,053)	—	(1,600,053)
At 31 December 2011	2,377,205	203,852	2,581,057

(D) Combined statements of cash flows

	Notes	2009	2010	2011
		Year ended 31 December		
		RMB '000	RMB '000	RMB '000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		1,314,079	2,524,905	2,913,190
Adjustments for:				
Finance costs	8	367	392	417
Finance income	7	(7,004)	(13,724)	(4,177)
Depreciation of property, plant and equipment	13	110,828	134,784	136,157
Amortisation of prepaid land lease payments	14	727	4,815	1,379
Amortisation of mining rights	15	13,777	21,171	22,360
Amortisation of intangible assets	16	127	119	130
Impairment/(reversal of impairment) of trade receivables, net	19	(12,365)	17,997	(28,900)
Impairment/(reversal of impairment) of other receivables, net	20	(331)	744	(1,253)
Loss on disposal of items of property, plant and equipment, net		171	169	1,063
(Increase)/decrease in inventories		55,078	(24,141)	(156,555)
(Increase)/decease in trade and bills receivables		244,712	(357,244)	(97,779)
(Increase)/decease in prepayments, deposits, and other receivables		(8,526)	(37,321)	26,277
Increase/(decrease) in trade and bills payables		25,736	73,879	7,898
Increase/(decrease) in other payables and accruals		448,964	25,174	(254,638)
Cash generated from operations		2,186,340	2,371,719	2,565,569
Income taxes paid		(206,033)	(519,365)	(633,193)
Net cash flows from operating activities		1,980,307	1,852,354	1,932,376

(D) Combined statements of cash flows (continued)

	Notes	Year ended 31 December 2009 RMB '000	2010 RMB '000	2011 RMB '000
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposals of items of property, plant and equipment, intangible assets and other long-term assets		127	6,746	—
Purchase of property, plant and equipment and construction in progress		(370,972)	(1,940)	(163,678)
Purchase of prepaid land lease payments	14	(39,008)	(23,902)	—
Purchase of intangible assets	16	—	—	(62)
Interest received		7,004	13,724	4,177
(Increase)/decrease in restricted bank deposits		(10,974)	3,887	(33)
Net cash flows used in investing activities		(413,823)	(1,485)	(159,596)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to non-controlling interests		(4,050)	—	(378,000)
Distribution to the owner of the Target Business Group		(1,275,949)	(1,488,970)	(1,600,053)
Net cash flows used in financing activities		(1,279,999)	(1,488,970)	(1,978,053)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		286,485	361,899	(205,273)
Cash and cash equivalents at the beginning of year	21	474,079	760,564	1,122,463
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	21	760,564	1,122,463	917,190

II. NOTES TO THE COMBINED FINANCIAL INFORMATION

1. INFORMATION OF THE TARGET BUSINESS GROUP

Yitai Group was incorporated in Inner Mongolia in the PRC in 1999, formerly known as Inner Mongolia Yimei Industrial Group Co., Ltd. (內蒙古伊煤實業集團有限公司, "YIGC"), which was transformed to Yitai Group in 2002 (the "Transformation"). Pursuant to the Transformation, Yitai Group was 98.96% owned by Inner Mongolia Yitai Investment Co., Ltd. ("Yitai Investment"). The registered office of Yitai Group is located at Yitai Building, Tianjiao North Road, Dongsheng District, Ordos City, Inner Mongolia, the PRC. Yitai Group is principally engaged in the production and sale of coal. Yitai Group is also engaged in coal chemical production and property development.

Yitai Coal was incorporated in Ordos in Inner Mongolia with limited liability and its shares have been listed on the Shanghai Stock Exchange at domestically listed foreign shares ("B shares") since 8 August 1997, and its parent company is Yitai Group, which holds a 54.64% equity interest in Yitai Coal. Yitai Coal is principally engaged in the purchase, mining, distribution and sale of coal, sale of coal processed products, and the production and sale of liquorices related products and medicine and transportation.

In the opinion of the Directors, the ultimate holding company of Yitai Coal and Yitai Group is Yitai Investment, an enterprise incorporated in Inner Mongolia, the PRC, which equity interests are held via a trust agreement by 31 individuals, comprising the senior management members and key technicians of Yitai Group, on behalf of a group of employees of Yitai Group.

Pursuant to an acquisition agreement dated 29 May 2012 entered into between Yitai Coal and Yitai Group, Yitai Coal agreed to acquire from Yitai Group the production and sale of coal operation, together with the related assets and liabilities, which comprises the following:

- Certain divisions and branches principally engaged in coal related operation, directly operated and owned by Yitai Group, together with the related assets and liabilities therein: Baijialiang Mine (白家梁煤礦), Dadijing Mine (大地精煤礦), Chengyi Mine (誠意煤礦), Xiyingzi Collection and Transportation Centre (西營子發運站), Dongxing Collection and Transportation Centre (東興發運站), Baoshen Line Collection and Transportation Centre (包神線發運站), Baotou Sales Branch (包頭銷售分公司), Beijing Payment Centre (北京交費中心), Jingtang Port Collection and Transportation Centre (京唐港轉運站), Caofeidian Representative Office (曹妃甸辦事處), Qinhuangdao Representative Office (秦皇島辦事處), Tianjin Representative Office (天津辦事處), Tanggongta Payment Centre (唐公塔交費中心), Datong Representative Office (大同辦事處), Baotou Payment Centre (包頭交費中心) and certain departments at the headquarters of Yitai Group (collectively referred to as the "Target Business"); and

- Two subsidiaries of Yitai Group principally engaged in coal related business: Inner Mongolia Yitai Baoshan Coal Co., Ltd. (內蒙古伊泰寶山煤炭有限責任公司, "Yitai Baoshan") and Inner Mongolia Yitai Tongda Coal Co., Ltd. (內蒙古伊泰同達煤炭有限責任公司) ("Yitai Tongda"), in which Yitai Group owns 73% equity interests each.

The Target Business, Yitai Baoshan and Yitai Tongda are collectively referred to as the "Target Business Group" in this report. Yitai Group continues to own and operate its businesses, subsidiaries and associates not related to the coal operation (collectively, referred to as the "Retained Businesses") after the acquisition.

Pursuant to the Acquisition, certain property, plant and equipment with an aggregate net book value of approximately RMB4,350,000 and certain taxes payable and other liabilities in the aggregate amount of approximately RMB275,418,000 as of 31 December 2009, that are historically associated with the Target Business and that have been included in the Combined Financial Information, will be retained by Yitai Group upon the Acquisition. For the purpose of this report, the above assets and liabilities are reflected as part of the distribution made to Yitai Group for the year ended 31 December 2009.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

2. BASIS OF PRESENTATION AND PREPARATION

The Target Business had not been incorporated in the Relevant Periods, the business of the Target Business Group was either carried out by the subsidiaries or the business divisions or branches controlled by Yitai Group. The combined statements of comprehensive income, combined statements of changes in equity, combined statement of cash flows and combined statements of financial position of the Target Business Group for the periods presented herein have been prepared as if the Target Business Group had been in place as a separate stand-alone entity throughout the periods presented.

The Combined Financial Information is presented on a combination basis of the Target Business Group. The non-controlling interests of Yitai Baoshan and Yitai Tongda are presented as non-controlling interests of the Target Business Group. All intra-group balances, income and expenses, unrealised gains and losses resulting from intra-group transactions are eliminated in full. Income taxes have been determined as if the Target Business Group was a separate taxable entity for all the periods presented.

The identifiable overhead costs that could directly attribute to the Target Business were included in the combined results of operation of the Target Business Group, the non-identifiable overhead costs were allocated between the Target Business and the Retained Businesses as follows:

Cost item	Allocation basis
Employee benefit expense	Headcount of employee
Other overhead costs	Revenue

For each of the three years ended 31 December 2009, 2010 and 2011, non-identifiable overhead costs of approximately RMB71,156,000, approximately RMB70,046,000, and approximately RMB108,283,000 were allocated to the Target Business, respectively; and approximately RMB8,814,000, approximately RMB4,944,000, and approximately RMB6,666,000 were allocated to the Retained Businesses, respectively.

The Directors believe that the foregoing cost allocation presents a reasonable basis of estimating what the Target Business Group's combined financial statements would have been on a stand-alone basis for the Relevant Periods.

While the Target Business Group has not operated as a separate entity, the financial statements are not necessarily indicative of results that would have occurred if the Target Business Group had been a separate stand-alone entity during the periods presented, nor is it indicative of future results of the Target Business Group. The Combined Financial Information set out in this report has been prepared in accordance with the accounting policies set out in note 3 of Section II, which comply with IFRSs issued by the IASB.

The Combined Financial Information has been prepared under the historical cost convention. The Combined Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

2. BASIS OF PRESENTATION AND PREPARATION — (CONTINUED)

The Target Business Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Combined Financial Information.

IFRS 9	*Financial Instruments*[4]
IFRS 7 Amendments	*Amendments to IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[1]
IFRS 10	*Consolidated Financial Statements*[1]
IFRS 11	*Joint Arrangements*[1]
IFRS 12	*Disclosure of Interests in Other Entities*[1]
IFRS 13	*Fair Value Measurement*[1]
IAS 1 Amendments	Amendments to IAS 1: *Changes to the Presentation of Other Comprehensive Income*[2]
IAS 27(Revised)	*Separate Financial Statements*[1]
IAS 28(Revised)	*Investments in Associates*[1]
IAS 12 Amendments	*Income Taxes*[3]
IAS 19 Amendments	*Employee Benefits*[1]
IAS 32 Amendments	*Amendments to IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[1]

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

The Target Business Group is in the process of making an assessment of the impact of these new, revised and amended IFRSs and IFRIC upon initial application. So far, these new and revised IFRSs are unlikely to have a significant impact on the Target Business Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

The Combined Financial Information incorporates the financial statements of the Target Business Group for the Relevant Periods. Control is achieved where the Target Business Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The business combinations involving entities or businesses under common control are accounted for using merger accounting. Merger accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The combined statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, whichever is a shorter period, regardless of the date of the common control combination.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

All intra-group balances, income and expenses, unrealised gains and losses, and dividends resulting from intra-group transactions are eliminated in full. Accounting policies of subsidiaries have been adjusted when necessary to ensure consistency with the policies adopted by the Target Business Group.

Non-controlling interests represent the interests of outside shareholders not held by the Target Business Group in the results and net assets of the subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recorded in equity.

Subsidiaries

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

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

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

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

   (i) has control or joint control over the reporting entity;

   (ii) has significant influence over the reporting entity; or

   (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity 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 employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(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 the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Except for mining structures, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life as follows:

Buildings	5 to 20 years
Plant and machinery	3 to 20 years
Motor vehicles	4 to 8 years
Road	20 years
Office equipment and others	3 to 5 years

Where parts of an item of property, plant and equipment, other than mining structures, have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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

Exploration and evaluation expenditure

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing coal bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. They are subsequently stated at cost less accumulated impairment. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned.

Intangible assets

Intangible assets, primarily comprising computer software, acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. The useful lives of intangible assets are assessed to be finite and are amortised over the useful economic lives. The amortisation period and the amortisation method for computer software are reviewed at least at each financial year end.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases. Where the Target Business Group is the lesser, assets leased by the Target Business Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Target Business Group is the lessee, rentals payable under operating leases are charged to profit of loss on the straight-line basis over the lease terms.

Prepaid land lease payments represent upfront prepayments made for the land use rights. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms ranging from 20 to 50 years.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. 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.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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

The Target Business Group's financial assets include cash and bank balances, trade and other receivables and loans receivable.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Target Business Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Target Business Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Target Business Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. 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. The effective interest rate amortisation is included in finance income. The loss arising from impairment is recognised in other expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Target Business Group has the positive intention and ability to hold to maturity. They are included in current assets if they mature within 12 months of the end of the reporting period. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income. The loss arising from impairment is recognised in other expenses.

Available-for-sale financial assets

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in other expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividends income, respectively and are recognised in other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Target Business Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Target Business Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Target Business Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Target Business Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

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

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

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Available-for-sale financial assets

For available-for-sale financial investments, the Target Business Group assesses at the end of each reporting period whether there is objective evidence that the investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss.

Financial liabilities

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, interest-bearing loans and loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised in finance costs.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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

Provisions

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

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

Rehabilitation provision

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

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

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

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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

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

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

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with Interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Revenue recognition

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

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

(b) from the rendering of services, when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the Target Business Group;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension obligations

The Target Business Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. Contributions to these plans are expensed as incurred.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Borrowing costs

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

Dividends

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

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

Impairment of non-financial assets

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

Impairment provision of receivables

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES — (CONTINUED)

Estimation uncertainty

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

Current income tax

The Target Business Group is subject to income taxes in numerous jurisdictions in the PRC. Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Useful lives and residual values of items of property, plant and equipment

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

Mine rehabilitation provision

The Target Business Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates (3.24%), and changes in discount rates (10%). Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of each reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the combined statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

Coal reserve and resource estimates

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Target Business Group's mining properties. The Target Business Group estimates its coal reserves and mineral

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES — (CONTINUED)

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

Units-of-production depreciation for mine specific assets

Estimated recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation / amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

5. SEGMENT INFORMATION

No operating segment information is presented as the Target Business Group's operations relate solely to the production and sale of coal and coal trading.

The Target Business Group's revenue from external customers is derived solely from its operations in the mainland China, and no assets of the Target Business Group are located outside the mainland China.

During the year ended 31 December 2009, the Target Business Group made sales to one customer of approximately RMB638,994,000, which individually exceeded 10% of the Target Business Group's total revenue for that year.

During the year ended 31 December 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Target Business Group's total revenue for that year.

During the year ended 31 December 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Target Business Group's total revenue for that year.

6. REVENUE AND OTHER INCOME

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

6. REVENUE AND OTHER INCOME — (CONTINUED)

An analysis of the Target Business Group's revenue and other income is as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Revenue			
Sale of coal	5,274,598	9,268,262	10,848,936
	5,274,598	9,268,262	10,848,936
Other income			
Rental income from mining equipments, net	1,873	—	—
Platform services, net	51,605	112,332	125,731
Others	1,633	5,935	2,752
	55,111	118,267	128,483

7. FINANCE INCOME

The Target Business Group's finance income is as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Bank interest income	7,004	13,724	4,177

8. FINANCE COSTS

The Target Business Group's finance costs are as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Changes of present value of other non-current liabilities	367	392	417

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

9. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December		
		2009	2010	2011
		RMB '000	RMB '000	RMB '000
Cost of inventory sold		3,614,665	6,358,873	7,515,201
Depreciation of property, plant and equipment	13	110,828	134,784	136,157
Amortisation of prepaid land lease payments	14	727	4,815	1,379
Amortisation of mining rights	15	13,777	21,171	22,360
Amortisation of intangible assets	16	127	119	130
Total depreciation and amortisation		125,459	160,889	160,026
Impairment/(reversal of impairment) of trade receivables, net	19	(12,365)	17,997	(28,900)
Impairment/(reversal of impairment) of other receivables, net	20	(331)	744	(1,253)
Total impairment/(reversal of impairment), net		(12,696)	18,741	(30,153)
Loss on disposal of items of property, plant and equipment, net		171	169	1,063
Employee benefits expense				
Wages, salaries and other employees' benefits		127,334	157,133	210,473
Pension scheme contributions (defined contribution scheme)		4,342	4,597	5,308
		131,676	161,730	215,781
Auditors' remuneration		806	480	438

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration information is not presented as the Target Business Group is not a stand-alone entity during the Relevant Periods. Accordingly, the Directors believe the presentation of such information is not meaningful for the purpose of this report.

(b) Five highest paid employees

The Directors believe the presentation of the five highest paid employees information is not meaningful for the purpose of this report.

11. INCOME TAX EXPENSE

	Year ended 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Income tax:			
Current tax — mainland China	295,062	557,010	607,358
Deferred tax (note 17):			
Relating to origination and reversal of temporary differences	(1,527)	2,463	10,253
Total income tax expense	293,535	559,473	617,611

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

11. INCOME TAX EXPENSE — (CONTINUED)

PRC corporate income tax ("CIT") was provided at a rate of 25% on the taxable income as reported in the statutory accounts of the entities comprising the Target Business Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

The Target Business Group's subsidiaries, Yitai Baoshan and Yitai Tongda, are entitled to a preferential income tax rate of 15% for the year ended 31 December 2009 as approved by Inner Mongolia tax Bureau (Neidishui (2010) No. 36).

Yitai Baoshan and Yitai Tongda were entitled to a preferential CIT rate of 15% for the year ended 31 December 2010 based on Guoshuifa (2002) No. 47 issued by Ministry of Finance and State Administration of Taxation, which stated that selected entities can enjoy the preferential tax rate of 15% in the Western Development.

According to Caishui (2011) No. 58 issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation, selected entities in Western China that falling into Catalogue of Encouraged Industries in Western China (西部地區鼓勵類產業目錄, "CEIWC") can enjoy the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

According to the notice (2011) No. 2 issued by Inner Mongolia State Administration Taxation of China, selected entities in Inner Mongolia that had enjoyed the preferential tax rate before 2010 in the Western Development and falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (產業結構調整指導目錄 (2011)) are entitled to a preferential tax rate of 15% to prepay tax in the year ending 31 December 2011.

By the date of the report, CEIWC has not been promulgated. According to Caishui (2012) No.12 issued by State Administration of Taxation, before CEIWC is promulgated, selected entities falling into Encouraged Projects in the Guidance Catalogue for Industry Structural Adjustment (2011) are entitled to a preferential tax rate of 15%. If CEIWC is promulgated and the Companies mentioned above are not meet the condition of CEIWC, then income tax should be redeclared according to the applicable tax rate.

No provision for Hong Kong profits tax has been made in the Combined Financial Information as the Target Business Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates in mainland China to the tax expense at the Target Business Group's effective income tax rates for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Profit before tax	1,314,079	2,524,905	2,913,190
Tax at the statutory income tax rate (25%)	328,520	631,226	728,298
Effect of lower tax rates	(39,787)	(77,133)	(113,401)
Expenses not deductible for tax purposes	4,802	5,380	2,714
Tax charge at the Target Business Group's effective rate	293,535	559,473	617,611

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

12. EARNINGS PER SHARE

Earnings per share information is not presented as the Target Business Group is not a stand-alone entity and had no issued and outstanding shares during the Relevant Periods.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures	Plant and machinery	Motor vehicles	Road	Office equipment and others	Construction in progress	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Cost:								
At 1 January 2009	**90,352**	**160,298**	**411,351**	**5,591**	**24,275**	**43,174**	**343,816**	**1,078,857**
Additions	126,154	43,481	51,742	3,319	201	3,486	15,351	243,734
Disposals	(7,811)	—	(510)	—	—	(1,589)	—	(9,910)
Transfer	174,789	63,852	87,671	—	—	—	(326,312)	—
At 31 December 2009	**383,484**	**267,631**	**550,254**	**8,910**	**24,476**	**45,071**	**32,855**	**1,312,681**
Additions	—	—	16,276	795	—	3,144	21,365	41,580
Disposals	(776)	—	(1,643)	—	—	(77)	—	(2,496)
Transfer	4,341	24,272	—	—	—	—	(28,613)	—
At 31 December 2010	**387,049**	**291,903**	**564,887**	**9,705**	**24,476**	**48,138**	**25,607**	**1,351,765**
Additions	—	92,163	5,874	1,357	80	—	41,131	140,605
Transfer	1,405	1,132	6,372	—	—	2,273	(11,182)	—
Disposals	(5,303)	—	(2,811)	(9)	—	(142)	—	(8,265)
At 31 December 2011	**383,151**	**385,198**	**574,322**	**11,053**	**24,556**	**50,269**	**55,556**	**1,484,105**

	Buildings	Mining structures	Plant and machinery	Motor vehicles	Road	Office equipment and others	Construction in progress	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January 2009	**(2,757)**	**(16,768)**	**(29,105)**	**(2,251)**	**—**	**(9,641)**	**—**	**(60,522)**
Depreciation charged for the year	(14,471)	(24,563)	(62,842)	(1,303)	(1,141)	(6,508)	—	(110,828)
Disposals	3,332	—	462	—	—	528	—	4,322
At 31 December 2009	**(13,896)**	**(41,331)**	**(91,485)**	**(3,554)**	**(1,141)**	**(15,621)**	**—**	**(167,028)**
Depreciation charged for the year	(14,898)	(43,256)	(64,889)	(1,817)	(2,291)	(7,633)	—	(134,784)
Disposals	529	—	—	—	—	870	—	1,399
At 31 December 2010	**(28,265)**	**(84,587)**	**(156,374)**	**(5,371)**	**(3,432)**	**(22,384)**	**—**	**(300,413)**
Depreciation charged for the year	(13,545)	(45,296)	(66,663)	(1,777)	(1,105)	(7,771)	—	(136,157)
Disposals	4,532	—	2,525	9	—	136	—	7,202
At 31 December 2011	**(37,278)**	**(129,883)**	**(220,512)**	**(7,139)**	**(4,537)**	**(30,019)**	**—**	**(429,368)**

	Buildings	Mining structures	Plant and machinery	Motor vehicles	Road	Office equipment and others	Construction in progress	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Net carrying amount:								
At 1 January 2009	87,595	143,530	382,246	3,340	24,275	33,533	343,816	1,018,335
At 31 December 2009	369,588	226,300	458,769	5,356	23,335	29,450	32,855	1,145,653
At 31 December 2010	358,784	207,316	408,513	4,334	21,044	25,754	25,607	1,051,352
At 31 December 2011	345,873	255,315	353,810	3,914	20,019	20,250	55,556	1,054,737

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

13. PROPERTY, PLANT AND EQUIPMENT — (CONTINUED)

As of the date of this report, the Target Business Group is in the process of applying for or changing the registration of the title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB6,268,000. The Directors are of the view that the Target Business Group is entitled to lawfully and valid occupy and use the above-mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Target Business Group's financial position as of 31 December 2011.

14. PREPAID LAND LEASE PAYMENTS

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Carrying amount at beginning of the year	10,156	48,437	61,706
Additions	39,008	23,902	—
Disposals	—	(5,818)	—
Amortisation for the year	(727)	(4,815)	(1,379)
Carrying amount at the end of year	48,437	61,706	60,327
Analyzed into:			
Current portion included in prepayments, deposits and other receivables	1,280	1,379	1,379
Non-current portion	47,157	60,327	58,948
	48,437	61,706	60,327

All the prepaid land lease payments of the Target Business Group are held under long term leases (50 years).

15. MINING RIGHTS

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Cost at beginning of the year net of accumulated amortisation	293,128	279,351	258,180
Amortisation for the year	(13,777)	(21,171)	(22,360)
Cost at the end of year, net of accumulated amortisation	279,351	258,180	235,820
At the end of year:			
Cost	310,410	310,410	310,410
Accumulated amortisation	(31,059)	(52,230)	(74,590)
Net carrying amount	279,351	258,180	235,820

In accordance with the relevant regulations, the majority of the Target Business Group's mining rights are granted for a period of up to 10 years. Based on the Target Business Group's past success in renewing its mining rights, in the opinion of the Directors, there will be no foreseeable major obstacle in renewing the mining rights when they expire.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

16. OTHER INTANGIBLE ASSETS

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Cost at beginning of the year, net of accumulated amortisation	582	455	336
Additions	—	—	62
Amortisation for the year	(127)	(119)	(130)
Cost at the end of year, net of accumulated amortisation	455	336	268
At the end of year			
Cost	606	606	668
Accumulated amortisation	(151)	(270)	(400)
Net carrying amount	455	336	268

17. DEFERRED TAX ASSETS

The movements in deferred tax during the Relevant Periods are as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
At beginning of the year, net	22,097	23,624	21,161
Deferred tax credited/(charged) to profit or loss during the year (note 11)	1,527	(2,463)	(10,253)
At end of the year, net	23,624	21,161	10,908

	Provision	Payables and accruals	Unrealised profits from intra group sales	Losses available for offset against future taxable profits	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January 2009	6,027	2,954	7,995	5,121	22,097
Credited/(Charged) in profit or loss during the year	(3,202)	1,097	8,753	(5,121)	1,527
At 31 December 2009 and 1 January 2010	2,825	4,051	16,748	—	23,624
Charged in profit or loss during the year	4,634	(4,051)	(3,046)	—	(2,463)
At 31 December 2010 and 1 January 2011	7,459	—	13,702	—	21,161
Charged in profit or loss during the year	(7,459)	—	(2,794)	—	(10,253)
At 31 December 2011	—	—	10,908	—	10,908

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

18. INVENTORIES

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Coal	157,364	179,166	333,723
Materials and supplies	416	2,755	4,753
	157,780	181,921	338,476

19. TRADE AND BILLS RECEIVABLES

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Trade receivables	218,651	577,895	675,674
Bills receivable	2,000	—	—
Less: Impairment provision	(10,903)	(28,900)	—
	209,748	548,995	675,674

The Target Business Group requires most of its customers to pay in advance, and credit periods of 30 days are normally granted by the Target Business Group to its major customers. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

The maximum exposure to credit risk for the reporting date is the carrying value of the Target Business Group's total trade receivables.

Bills receivable are bills of exchange with a maturity period of less than six months.

An aged analysis of the Target Business Group's trade and bills receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Within six months	209,726	548,995	675,674
Over six months but within one year/period	—	—	—
Over one year but within two years/period	22	—	—
	209,748	548,995	675,674

Movements in the Target Business Group's provision for impairment of trade receivables are as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
At beginning of the year	23,268	10,903	28,900
Impairment losses recognised	—	17,997	—
Impairment losses reversed	(12,365)	—	(28,900)
At the end of year	10,903	28,900	—

The trade receivables of the Target Business Group that are not considered to be impaired at the end of each reporting period are receivables that were not past due, which relate to a large number of diversified customers for whom there was no recent history of default.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Due from fellow subsidiaries	1,220	—	13,001
Advances to suppliers	86,854	127,967	71,879
Prepayments	8,445	—	217
Staff advances	—	3	154
Other receivables	2,876	8,845	25,287
Less: Provision for impairment	(509)	(1,253)	—
	98,886	135,562	110,538

Movements in the provision for impairment of prepayments, deposits and other receivables are as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
At beginning of the year	840	509	1,253
Provision of impairment	—	744	—
Reversal of impairment provision	(331)	—	(1,253)
At the end of year	509	1,253	—

An aged analysis of prepayments, deposits and other receivables of the Target Business Group that are neither individually nor collectively considered to be impaired is as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Within six months	92,553	130,276	99,501
Over six months but within one year	5,381	703	2,983
Over one year but within two years	940	4,563	8,054
Over two years but within three years	—	20	—
Over three years	12	—	—
	98,886	135,562	110,538

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

21. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Notes	As of 31 December		
		2009	2010	2011
		RMB '000	RMB '000	RMB '000
Cash and bank balances		771,538	1,129,550	924,310
Less: Restricted bank deposits	(a)	(10,974)	(7,087)	(7,120)
		760,564	1,122,463	917,190
Denominated in RMB	(b)	760,564	1,122,463	917,190
Denominated in other currencies		—	—	—
		760,564	1,122,463	917,190

Notes:

(a) As of 31 December 2009, 31 December 2010, and 31 December 2011, the Target Business Group's bank balances of approximately RMB10,974,000, RMB7,087,000 and RMB7,120,000 were deposited at banks as a mine geological environment protection guarantee fund pursuant to the related government regulations. Such guarantee deposit will be released when the obligations of environment protection is fulfilled and accepted by the competent government entities.

(b) The RMB is not freely convertible into other currencies, however, under mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Business Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

22. TRADE AND BILLS PAYABLES

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Trade payables to third parties	115,617	213,898	237,265
Trade payables to related parties	39,871	15,469	—
	155,488	229,367	237,265

An aged analysis of the Target Business Group's trade and bills payables, based on the invoice dates, as of the end of the reporting period is as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Within six months	151,409	223,970	233,831
Over six months but within one year	1,493	1,612	1,155
Over one year but within two years	2,586	3,785	2,279
Over two years but within three years	—	—	—
Over three years	—	—	—
	155,488	229,367	237,265

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

22. TRADE AND BILLS PAYABLES — (CONTINUED)

The trade payables are non-interest-bearing and have an average credit term of 30 to 90 days. The credit terms granted by the related parties are similar to those granted by the related parties to their major customers.

23. OTHER PAYABLES AND ACCRUALS

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Due to fellow subsidiaries	56,611	—	—
Advances from customers	154,269	198,811	147,271
Accrued salaries, wages and benefits	23,897	16,364	38,685
Other taxes payables	42,896	169,308	11,699
Other payables	9,764	40,017	22,168
Payables for purchasing property, plant and equipment	97,049	136,689	113,615
Received deposit for security of construction quality	371,000	259,111	209,150
	755,486	820,300	542,588

The above amounts are unsecured, interest-free and have no fixed terms of repayment.

24. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of each reporting period during the Relevant Periods, the Target Business Group had no significant future minimum lease payments under non-cancellable operating leases.

25. COMMITMENTS

The Target Business Group had the following capital commitments at the end of each reporting period:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Contracted, but not provided for:			
Property, plant and equipment	80,944	18,427	20,573
	80,944	18,427	20,573

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

26. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Significant related party transactions

In addition to the transactions and balances disclosed elsewhere in this report, the Target Business Group had the following material transactions with related parties during the Relevant Periods:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Purchase of goods (i)			
Fellow subsidiaries (ii)	377,638	405,681	108,989
Purchase of property, plant and equipment (i)			
Fellow subsidiaries (ii)	26,901	—	—
Receipt of transportation and storage services (i)			
Fellow subsidiaries (ii)	439,656	248,160	638,626
Render of platform services (i)			
Fellow subsidiaries (ii)	40,061	113,519	133,432

(b) Outstanding balances with related parties

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Trade and bills receivables (iii)			
Fellow subsidiaries (ii)	11,397	—	18,647
Other receivables and prepayments (iii)			
Fellow subsidiaries (ii)	1,220	—	13,001
Trade and bills payables (iii)			
Fellow subsidiaries (ii)	39,871	15,469	—
Other payables and advances from customers (iii)			
Fellow subsidiaries (ii)	56,611	—	—

(i) In the opinion of Directors, the transactions between the Target Business Group and the related parties were conducted in the ordinary and usual course of business and on normal commercial terms, the pricing terms were at the prevailing market prices, and the related party transactions will not continue after the listing of H shares of Yitai Coal on Hong Kong Stock Exchange and the completion of the Acquisition.

(ii) Fellow subsidiaries were other subsidiaries under the common control of Yitai Group, including Yitai Coal, the subsidiaries of Yitai Coal and other subsidiaries (except for the Target Business Group) of Yitai Group.

(iii) The above balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

27 CONTINGENT LIABILITIES

The Target Business Group did not have any significant contingent liabilities not provided for at the end of each reporting period during the Relevant Periods.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

28. FINANCIAL INSTRUMENTS BY CATEGORY

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

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Financial assets			
Trade and bills receivables	209,748	548,995	675,674
Financial assets included in prepayments, deposits and other receivables	2,876	8,848	25,441
Restricted bank deposits	10,974	7,087	7,120
Cash and cash equivalents	760,564	1,122,463	917,190
Financial liabilities			
Trade and bills payables	155,488	229,367	237,265
Financial liabilities included in other payables and accruals	601,217	621,489	395,317

All financial assets of the Target Business Group are loans and receivables, and all financial liabilities of the Target Business Group are financial liabilities at amortised cost.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Business Group's principal financial instrument, other than derivatives comprise cash equivalents and trade and bills receivables. The main purpose of these financial instruments is to manage short term cash flows and raise finance for the Target Business Group's operations. The Target Business Group has various financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The carrying amounts of the Target Business Group's financial instruments approximated to their fair values at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Target Business Group's financial instruments are interest rate risk, credit risk, commodity price risk and liquidity risk. As the Target Business Group's exposure to these risks is kept to a minimum, the Target Business Group has not used any derivatives and other instruments for hedging purposes. The Target Business Group does not hold or issue derivative financial instruments for trading purposes. Management reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Business Group's exposure to the risk of changes in market interest rates is limited as it had no borrowings or debt obligations with floating interest rates during the Relevant Periods.

Credit risk

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

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — (CONTINUED)

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

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

Commodity price risk

The Target Business Group is exposed to commodity price risk through fluctuations of the price of coal sold by the Target Business Group. The Target Business Group has accepted the exposure to commodity price risk and has not used forward contracts to eliminate the commodity price exposures on individual transactions.

Liquidity risk

Management of the Target Business Group aims to maintain sufficient cash and cash equivalents and the Target Business Group has available funding through an adequate amount of committed credit facilities to meet its commitments.

The table below summarizes the maturity profile of the Target Business Group's financial liabilities based on the contractual undiscounted payments.

Year ended 31 December 2011	On demand	Less than 1 year	Total
	RMB '000	RMB '000	RMB '000
Trade and bills payables	237,265	—	237,265
Other payables and accruals	281,702	113,615	395,317
	518,967	113,615	632,582

Year ended 31 December 2010	On demand	Less than 1 year	Total
	RMB '000	RMB '000	RMB '000
Trade and bills payables	229,367	—	229,367
Other payables and accruals	484,800	136,689	621,489
	714,167	136,689	850,856

Year ended 31 December 2009	On demand	Less than 1 year	Total
	RMB '000	RMB '000	RMB '000
Trade and bills payables	155,488	—	155,488
Other payables and accruals	504,168	97,049	601,217
	659,656	97,049	756,705

Capital management

The primary objective of the Target Business Group's capital management is to safeguard the Target Business Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

II. NOTES TO THE COMBINED FINANCIAL INFORMATION — (CONTINUED)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — (CONTINUED)

The Target Business Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Business Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Business Group monitors capital using a gearing ratio, which is net debt divided by total capital. The net debt includes interest-bearing bank loans, trade, bills and other payables and accruals, less cash and cash equivalents. Capital represents the equity attributable to the owner of the Target Business Group.

At the end of the reporting period, the Target Business Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Target Business Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Target Business Group has a reasonable level of capital to support its business. The gearing ratios at the end of the reporting period were as follows:

	As of 31 December		
	2009	2010	2011
	RMB '000	RMB '000	RMB '000
Trade and bills payables	155,488	229,367	237,265
Other payables and accruals	601,217	621,489	395,317
Less:			
Cash and cash equivalents	760,564	1,122,463	917,190
Net debt	(3,859)	(271,607)	(284,608)
Equity attributable to owner of the Target Business Group	1,638,531	1,942,312	2,377,205
Capital and net debt	**1,634,672**	**1,670,705**	**2,092,597**
Gearing ratio	-0.2%	-14.0%	-12.0%

III. SUBSEQUENT EVENTS

As of the date of this report, the Target Business Group had no significant events after reporting period.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Yitai Group for the Target Business or any of its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong