THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular, the Whitewash Waiver or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Up Energy Development Group Limited ("**the Company**"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares or other securities in the Company.

UP ENERGY

Up Energy Development Group Limited

優派能源發展集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 307)

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES (II) APPLICATION FOR WHITEWASH WAIVER AND (III) NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VC CAPITAL LIMITED
滙盈融資有限公司

A letter from the Board is set out on pages 9 to 30 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 31 of this circular. A letter of advice from IFA to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 58 of this circular.

To qualify for the Rights Issue, the Shareholder must be registered as a member of the Company on the Record Date, which is currently expected to be 7th March, 2013. In order to be registered as a member of the Company on the Record Date, the Shareholders must lodge any transfers of Shares (together with the relevant share certificate(s)) with the Share Registrar by 4:30 p.m. on 5th March, 2013. The last day of dealings in Shares on a cum-rights basis is therefore expected to be 1st March, 2013. The Shares will be dealt with on an ex-rights basis from 4th March, 2013.

A notice convening the SGM to be held at Plaza 1–2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong at 11:00 a.m. on 28th February, 2013 is set out on pages IV-1 to IV-2 of this circular. If a Shareholder is not able to attend the SGM in person, such Shareholder is requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney to the office of the Share Registrar at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the SGM should the Shareholder so desire.

The Share Registrar is Tricor Secretaries Limited at 26F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The Rights Issue is conditional upon the fulfillment of the conditions (or, in respect of certain conditions, waiver thereof) as set out in the section headed "Conditions of the Rights Issue and the Underwriting Agreement" of the "Letter from the Board" in this circular.

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the ability to terminate its obligations thereunder on the occurrence of certain events. The Underwriter may terminate its commitment under the Underwriting Agreement at any time prior to the Latest Time for Termination if: (a) there has developed, occurred, existed or come into effect: (i) the introduction of any new law or regulation or any change in existing laws or regulations, or the judicial interpretation of such laws or regulations, or any other similar matter or event which has a material adverse effect on the business or financial condition of the Group as a whole; or (ii) any change in local, national or international economic, financial or political conditions or any matter or event beyond the control of the Company and/or the Underwriter (including acts of government, economic sanctions, strikes, riot, fire, explosion, flooding, earthquake, civil commotion, act or declaration of war, outbreak or escalation of hostilities, act of terrorism, acts of God, pandemic, outbreak of infectious disease, declaration of a state of emergency or calamity or crisis or accident) which is materially adverse in the context of the Rights Issue or makes it inadvisable or inexpedient to proceed with the Rights Issue; or (iii) any change in local, national or international stock market conditions (including any moratorium, suspension of or material restriction on trading in securities generally) which materially and adversely affects the Rights Issue or makes it inadvisable or inexpedient to proceed with the Rights Issue; or (iv) any change, or any development involving a prospective change, in taxation in Hong Kong, the PRC or any other jurisdiction to which any member of the Group is subject, or the implementation of any exchange control, which materially and adversely affects any member of the Group or its shareholders in their capacity as such; or (b) there comes to the notice of the Underwriter any matter or event showing any of the warranties to be untrue or inaccurate in a material respect which is materially adverse in the context of the Rights Issue; or (c) the listing of and permission to deal in the Rights Shares have been withdrawn by the Stock Exchange; or (d) the Company is in breach of any of its obligations under this Agreement which is material in the context of the Rights Issue.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Rights Issue will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

The Shares are expected to be dealt in on an ex-rights basis from Monday, 4th March, 2013. Dealings in the Rights Shares in the nil-paid form will take place from Tuesday, 12th March, 2013 to Tuesday, 19th March, 2013. If the conditions of the Rights Issue are not fulfilled and/or waived on or before 26th March, 2013 (or such later time and/or date as the Company and the Underwriter may determine), or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any persons contemplating buying or selling Shares from the date of the Announcement up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Tuesday, 12th March, 2013 to Tuesday, 19th March, 2013, (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

* *For identification purposes only*

8th February, 2013

CONTENTS

In this circular, unless the context otherwise requires, the following expressions used shall have the following meanings:

"Announcement"	the announcement of the Company dated 8th January, 2013 relating to, among other things, the proposed Rights Issue and the application for the Whitewash Waiver
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	means any day (other than a Saturday, a Sunday, a public holiday in Hong Kong and any day on which, a tropical cyclone warning no. 8 or above or is hoisted or remains hoisted or on which a "black" rainstorm warning is hoisted or remains hoisted, between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks are open for business in Hong Kong
"BVI"	the British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Up Energy Development Group Limited (stock code: 307) a company incorporated in Bermuda with limited liability whose Shares are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Convertible Notes"	all of the convertible notes issued by the Company on 18th January, 2011
"Conversion Shares"	the new Shares to be issued by the Company under the Convertible Notes
"Director(s)"	the director(s) of the Company
"EAFs"	the excess application form(s) to be issued to the Qualifying Shareholders in respect of applications for excess Rights Shares
"Executive"	the Executive Director of the corporate finance division of the SFC or any delegate of the executive Director

"Final Acceptance Date"	22nd March, 2013 (or such other time or date as the Underwriter and the Company may agree in writing) and described as the latest time and date for acceptance of and payment for the Rights Shares in the Rights Issue Documents
"Government Agency"	means any government, governmental, semi-governmental, administrative, fiscal or judicial body department, commission, authority, tribunal, agency or entity and includes, but not limited to, (i) the Stock Exchange; (ii) the SFC; and (iii) any other person authorised by Law to give consents or impose requirements
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"IFA" or "Independent Financial Advisor"	VC Capital Limited, the independent financial adviser appointed by the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders on the terms of the Rights Issue and the Whitewash Waiver and as to voting
"Independent Board Committee"	an independent board committee of the Company, comprising Mr. Chau Shing Yim, David, Mr. Li Bao Guo, Mr. Lien Jown Jing, Vincent and Dr. Shen Shiao Ming, being all of the non-executive Directors of the Company, which has been established to advise the Independent Shareholders of the company on the terms of the Rights Issue and the Whitewash Waiver
"Independent Shareholders"	the shareholders of the Company, excluding the Underwriter and parties acting in concert with it and any Shareholders who are involved or interested in the transactions regarding the Rights Issue and the Whitewash Waiver
"JORC"	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), amended, revised, updated and supplemented from time to time
"Last Trading Day"	19th December, 2012, being the last full trading day of the Shares on the Stock Exchange immediately prior to the publication of the Announcement

"Latest Practicable Date"	5th February, 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Committee"	has the same meaning ascribed to it under the Listing Rules
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31st August, 2013, or such later time and date as may be agreed in writing between the Company and the Underwriter in relation to the Rights Issue
"Mt"	Million tonnes
"Non-Qualifying Shareholder(s)"	the Overseas Shareholders to whom the Board, based on legal opinion(s) or advice provided or to be provided by the legal advisers to the Company, after making reasonable enquiries, on account of either the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in that jurisdiction, considers it necessary or expedient not to offer the Rights Shares
"Noteholder(s)"	holder(s) of any of the Convertible Notes
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company as at 5:00 p.m. on the Record Date and whose address(es) as shown on the register is/are outside Hong Kong
"PAL(s)"	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in respect of their assured entitlements under the Rights Issue
"Percentage Ratio(s)"	the percentage ratio(s) as set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
"PRC"	means the People's Republic of China (excludes Hong Kong, Taiwan and Macau)
"Prospectus"	the prospectus to be issued by the Company in relation to the Rights Issue
"Prospectus Posting Date"	8th March, 2013 or such other date as the Underwriter may agree in writing with the Company as the date of despatch of the Rights Issue Documents

"Qualifying Shareholders"	the Shareholders, other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date
"Record Date"	7th March, 2013, being the record date to determine entitlements to the Rights Issue (or such other date as the Underwriter may agree in writing with the Company)
"Relevant Period"	6 months before the date of the Announcement and ending on the Latest Practicable Date
"Rights Issue"	the issue of 848,895,627 Rights Shares at the Subscription Price of 1 Rights Share for every 2 existing Shares held on the Record Date payable in full on acceptance
"Rights Issue Documents"	the Prospectus, the PAL(s) and the EAF(s)
"Rights Share(s)"	the new Share(s) to be allotted and issued in respect of the Rights Issue
"RMB"	Renminbi yuan, the lawful currency of the PRC
"Settlement Date"	the third Business day after the Final Acceptance Date, or such other date as may be agreed in writing between the Company and the Underwriter
"SFC"	means the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be convened to approve, among other things, the Whitewash Waiver
"Share(s)"	the ordinary share(s) of par value of HK$0.20 each in the share capital of the Company
"Shareholder(s)"	means the shareholder(s) of the Company
"Share Registrar"	Tricor Secretaries Limited, the Hong Kong branch share registrar of the Company whose address is at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.50 per Rights Share
"subsidiary"	has the same meaning ascribed to it under the Listing Rules

"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Taken Up/take up/taking up"	those Rights Shares and/or the Underwritten Shares in respect of which the relevant PALs and/or EAFs have been lodged accompanied by cheques or other remittances for the full amount payable in respect thereof
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Terms and Conditions"	the terms and conditions of the Convertible Notes
"Underwriter"	Up Energy Group Ltd., a company incorporated in the British Virgin Islands with limited liability, being a substantial shareholder of the Company, which is ultimately owned by Seletar Limited and Serangoon Limited as nominees in trust of Credit Suisse Trust Limited, the trustee of J&J Trust, which beneficiaries are Mr. Qin Jun and his wife, Ms. Wang Jue
"Underwriting Agreement"	the underwriting agreement dated 8th January, 2013 entered into between the Company and the Underwriter in relation to the Rights Issue
"Underwritten Shares"	the 612,112,153 Rights Shares (being the Rights Shares other than an aggregate of 236,783,474 Rights Shares to be provisionally allotted to the Underwriter) to be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
"United States" or "US"	the United States of America (including its territories and dependencies, any state in the US and the District of Columbia)
"US$"	US dollars, the lawful currency of the United States of America
"Whitewash Waiver"	a waiver of the obligation of the Underwriter and parties acting in concert with it to make a mandatory general offer arising from the underwriting of the Rights Issue for all the Shares not already owned, controlled or agreed to be acquired by them pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code by the Executive

The following information is derived from, and should be read in conjunction with, the full text of this circular:

Basis of the Rights Issue	:	1 Rights Share for every 2 existing Shares held at 5:00 p.m. on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date	:	1,697,791,255 Shares
Number of Rights Shares	:	848,895,627
Number of Underwritten Shares	:	the 612,112,153 Rights Shares (being the Rights Shares other than an aggregate of 236,783,474 Rights Shares to be provisionally allotted to the Underwriter) to be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
Subscription Price	:	HK$0.50 per Rights Share
Amount to be raised	:	Approximately HK$424 million from the Rights Shares, before expenses
Underwriter	:	Up Energy Group Ltd., a substantial shareholder of the Company

Under the Rights Issue, the 848,895,627 nil-paid Rights Shares proposed to be provisionally allotted represent 50% of the existing issued share capital of the Company and approximately 33.3% of the issued share capital of the Company as enlarged by the Rights Issue. As at the Latest Practicable Date, the Underwriter holds Convertible Notes in the principal amount of HK$3,197,238,578 issued by the Company, which can be converted into 1,598,619,289 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. As at the Latest Practicable Date, Up Energy Capital Limited, a concert party of the Underwriter, holds Convertible Notes in the principal amount of HK$275,000,000, which can be converted into 137,500,000 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions, and the other Shareholders (excluding the Underwriter and Up Energy Capital Limited) hold Convertible Notes in the principal amount of HK$1,454,508,674 in aggregate, which can be converted into 727,254,337 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. Save as disclosed in this paragraph, as at the Latest Practicable Date, there are no outstanding options granted under the share option scheme of the Company, and the Company has no outstanding options, convertible securities or warrants which confer the right to subscribe for the Shares.

EXPECTED TIMETABLE

The expected timetable for the Rights Issue is set out below:

Event	Date *(Note 1)*
Latest time for lodging forms of proxy for SGM	11:00 a.m. on Tuesday, 26th February
SGM	11:00 a.m. on Thursday, 28th February
Announcement of poll results of SGM	By 7:00 p.m. on Thursday, 28th February
Last day of dealings in Shares on a cum-rights basis	Friday, 1st March
First day of dealings in Shares on an ex-rights basis	Monday, 4th March
Latest time for lodging transfer documents of Shares in order to qualify for the Rights Issue	4:30 p.m. on Tuesday, 5th March
Closure of the register of members for determining entitlements under the Rights Issue	Wednesday, 6th March to Thursday, 7th March
Record Date	Thursday, 7th March
Registration of Prospectus	Thursday, 7th March
Despatch of Rights Issue Documents	Friday, 8th March
Re-opening of the register of members	Friday, 8th March
First day of dealings in nil-paid Rights Shares	Tuesday, 12th March
Latest time for splitting of nil-paid Rights Shares	4:30 p.m. on Thursday, 14th March
Last day of dealings in nil-paid Rights Shares	Tuesday, 19th March
Latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares	4:00 p.m. on Friday, 22nd March

Event	**Date** *(Note 1)*
Rights Issue and Underwriting Agreement to become unconditional	5:00 p.m. on Monday, 25th March
Announcement of results of the Rights Issue	Wednesday, 27th March
Certificates for Rights Issue expected to be despatched on	Thursday, 28th March
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be posted on	Thursday, 28th March
Commence dealing in the fully-paid Rights Shares	Tuesday, 2nd April

Notes:

1. All times in this circular refer to Hong Kong time.

2. Effect of bad weather on the latest time for acceptance of and payment for Rights Shares:

   The latest time for acceptance of payment for Rights Shares and for application and payment for excess Rights Shares will be postponed if there is:

   - a tropical cyclone warning signal number 8 or above; or
   - a "black" rainstorm warning,

   i. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Final Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; and

   ii. in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Final Acceptance Date. Instead, the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the next Business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

   If the latest time for acceptance of payment for the Rights Shares and for application and payment for excess Rights Shares is postponed in accordance with the foregoing, the dates mentioned above may be affected. An announcement will be made by the Company in such event.

Up Energy Development Group Limited
優派能源發展集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 307)

Executive Directors:
Mr. Qin Jun
Mr. Jiang Hongwen

Non-executive Director:
Mr. Chau Shing Yim, David

Independent non-executive Directors:
Mr. Li Bao Guo
Mr. Lien Jown Jing, Vincent
Dr. Shen Shiao-Ming

Principal place of business in Hong Kong:
Room 2704, 27/F
Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

8th February, 2013

To the Shareholders and, for information only, the holders of the Share Options

Dear Sir or Madam,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES (II) APPLICATION FOR WHITEWASH WAIVER AND (III) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue and the Whitewash Waiver.

On 8th January, 2013, the Board announced that the Company proposed to raise approximately HK$424 million, before expenses, by issuing 848,895,627 Rights Shares by way of a Rights Issue at the Subscription Price of HK$0.5 per Rights Share on the basis of 1 Rights Share for every 2 existing Shares held by the Qualifying Shareholders on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders.

As at the Latest Practicable Date, the Underwriter, a substantial shareholder of the Company, and parties acting in concert with it, beneficially owns, controls or has direction over 473,566,949 Shares, representing approximately 27.89% of the total issued Shares. As at the Latest Practicable Date, the Underwriter holds Convertible Notes in the principal amount of

* *For identification purposes only*

HK$3,197,238,578 issued by the Company, which can be converted into 1,598,619,289 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. As at the Latest Practicable Date, Up Energy Capital Limited, a concert party of the Underwriter, holds Convertible Notes in the principal amount of HK$275,000,000, which can be converted into 137,500,000 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions, and the other Shareholders (excluding the Underwriter and Up Energy Capital Limited) hold Convertible Notes in the principal amount of HK$1,454,508,674 in aggregate, which can be converted into 727,254,337 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. Pursuant to the Underwriting Agreement, the Underwriter has irrevocably undertaken to the Company, among other things, that (i) it controls, and will from the date of the Underwriting Agreement up to the Record Date control in aggregate 473,566,949 Shares; (ii) it shall not, within the period commencing on the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any Shares held by it or in which it is beneficially interested; and (iii) subject to fulfilment (or waiver) of the conditions of the Rights Issue and the Underwriting Agreement aforesaid and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof, it will take up (or procure to be taken up) its provisional entitlements under the Rights Issue. Save for those Rights Shares which the Underwriter has irrevocably undertaken to take up (or procure to be taken up), the Rights Issue is fully underwritten by the Underwriter.

The Underwriting Agreement may potentially increase the shareholdings of the Underwriter in the Company to 30% or more within the meaning of the provisions of Rule 26.1 of the Takeovers Code, in which case a mandatory offer obligation will arise on the part of the Underwriter and the parties acting in concert with it to make an offer to acquire all the Shares not otherwise owned, controlled or agreed to be acquired by them.

An application has been made to the Executive for the Whitewash Waiver, pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations of the Underwriter and the parties acting in concert with it to make such a mandatory general offer. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders of the Company at the SGM by way of poll. If the Whitewash Waiver is not granted by the Executive or if the conditions imposed thereon are not fulfilled as aforementioned, the Underwriter may waive the Whitewash Waiver condition to the Underwriting Agreement and may proceed with a mandatory general offer as required by Rule 26.1 of the Takeovers Code. The Underwriter will comply with the Takeovers Code where necessary.

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the Whitewash Waiver at the SGM. The Board, including all members of the Independent Board Committee, has approved the appointment of VC Capital Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) further information regarding details of the proposed Rights Issue and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver, (iv) the notice convening the SGM; and (v) other information as required under the Listing Rules and the Takeovers Code.

PROPOSED RIGHTS ISSUE

Issue statistics

The Board announced that the Rights Issue is proposed with the terms set out as follows:

Basis of the Rights Issue	:	1 Rights Share for every 2 existing Shares held at 5:00 p.m. on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date	:	1,697,791,255 Shares
Number of Rights Shares	:	848,895,627
Number of Underwritten Shares	:	the 612,112,153 Rights Shares (being the Rights Shares other than an aggregate of 236,783,474 Rights Shares to be provisionally allotted to the Underwriter) to be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
Subscription Price	:	HK$0.50 per Rights Share
Amount to be raised	:	Approximately HK$424 million from the Rights Shares, before expenses
Underwriter	:	Up Energy Group Ltd., a substantial shareholder of the Company

Under the Rights Issue, the 848,895,627 nil-paid Rights Shares proposed to be provisionally allotted represent 50% of the existing issued share capital of the Company and approximately 33.3% of the issued share capital of the Company as enlarged by the Rights Issue. As at the Latest Practicable Date, the Underwriter holds Convertible Notes in the principal amount of HK$3,197,238,578 issued by the Company, which can be converted into 1,598,619,289 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. As at the Latest Practicable Date, Up Energy Capital Limited, a concert party of the Underwriter, holds Convertible Notes in the principal amount of HK$275,000,000, which can be converted into 137,500,000 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions, and the other Shareholders (excluding the

Underwriter and Up Energy Capital Limited) hold Convertible Notes in the principal amount of HK$1,454,508,674 in aggregate, which can be converted into 727,254,337 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions.

Save as disclosed in the above paragraph, as at the Latest Practicable Date, there are no outstanding options granted under the share option scheme of the Company, the Company has no outstanding options, convertible securities or warrants which confer the right to subscribe for the Shares, the Underwriter and persons acting in concert with it did not hold any convertible securities, warrants or options or did not enter into any outstanding derivative in respect of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

Conditions governing conversion, exchange or subscription of outstanding Convertible Notes

Conversion

The Convertible Notes may not be converted if immediately following such conversion:

1. the Company will be unable to meet the public float requirement under the Listing Rules; or

2. a mandatory general offer obligation under the Takeovers Code will be triggered on the part of the relevant Noteholder and the parties acting in concert with it.

Given the Subscription Price is lower than the market price of the Shares as at the Last Trading Day, the conversion price of the Convertible Notes shall be adjusted in accordance with the Terms and Conditions, and such adjustments shall become effective (if appropriate, retroactively) from the commencement of the day following the Record Date.

Assignment or transfer

No application shall be made for a listing of the Convertible Notes in any jurisdiction.

The Convertible Notes may be assigned or transferred at any time subject to the following conditions:

1. such assignment or transfer shall be subject to the conditions, approvals, requirements and any other provisions of or under (i) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or its rules and regulations, and (ii) the Listing Rules and all applicable laws and regulations;

2. such assignment or transfer (whether in whole or any part(s) of the outstanding principal amount of the Convertible Notes) may not be made to connected persons of the Company; and

3. the relevant Convertible Note(s) may only be transferred by execution of the prescribed form set out in the Terms and Conditions and must be duly delivered to the Company in accordance with the Terms and Conditions.

Procedures for conversion of Convertible Notes

To exercise his/her conversion right, a Noteholder shall deliver a written notice in the form set out in and in accordance with the Terms and Conditions, stating his/her intention to convert the whole or any part(s) of the principal amount of the relevant Convertible Note(s) held by the Noteholder into Shares.

The Conversion Shares shall be allotted and issued by the Company, credited as fully paid, to the relevant Noteholder within 5 Business Days after, and with effect from the later of the date on which the notice of conversion was given or the date on which the certificate for the relevant Convertible Note(s) delivered to and received by the Company.

The certificate(s) for the Conversion Shares shall, if the relevant Noteholder so requests, be deposited in the CCASS participant's stock account or, in the absence of such request, issued in board lots to the extent possible and made available for collection at the Company's address specified in the Terms and Conditions within the 5 Business Days period provided above, and (if appropriate) the certificate for the relevant Convertible Note(s) with an endorsement thereon by a Director for any balance of the relevant Convertible Note(s) not converted shall be made available for collection at the Company's address specified in the Terms and Conditions within the same period.

All taxes and stamp duty, issue and registration duties (if any), levies and charges (if any) arising out of any conversion of the Convertible Notes will be borne by the relevant Noteholder.

Subscription Price

The Subscription Price for the Rights Shares is HK$0.50 per Rights Share payable in cash and in full by a Qualifying Shareholder upon his/her/its acceptance of the provisional allotment of the Rights Shares under the Rights Issue or, where applicable, his/her/its application for excess Rights Shares or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(a) a discount of approximately 54.5% to the closing price of HK$1.10 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 52.7% to the average of the closing prices per Share as quoted on the Stock Exchange for the last five previous consecutive full trading days up to and including the Last Trading Day of approximately HK$1.058;

(c) a discount of approximately 49.3% to the average of the closing prices per Share as quoted on the Stock Exchange for the last ten previous consecutive full trading days up to and including the Last Trading Day of approximately HK$0.987;

(d) a discount of approximately 44.4% to the theoretical ex-rights price of approximately HK$0.90 per Share based on the closing price of HK$1.10 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(e) a discount of approximately 88% to the audited consolidated net asset value attributable to the Shareholders as at 31st March, 2012 of approximately HK$4.2 per Share.

Each Rights Share has a par value of HK$0.20.

The Subscription Price was determined by the Directors with reference to the market price of the Shares prior to and including the Last Trading Day and the last traded price of the Shares on the Stock Exchange prior to the suspension of trading. Each Qualifying Shareholder will be entitled to subscribe for the Rights Shares at the same Subscription Price in proportion to his/her/its shareholding held at 5:00 p.m. on the Record Date.

The theoretical ex-rights price is calculated by adding the market value of all the issued Shares (based on the closing price of the Shares on the Last Trading Day) with the gross amount of subscription proceeds expected to be received from the Rights Issue (before expenses), and then divided by the total number of issued Shares as enlarged by the Rights Issue.

The Board (excluding those Directors who are members of the Independent Board Committee) consider the terms of the Rights Issue, including the Subscription Price (and the discounts to the relative values as indicated above), to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole.

Basis of provisional allotment

1 Rights Share (in nil-paid form) for every 2 existing Shares held by the Qualifying Shareholders as at 5:00 p.m. on the Record Date. Application for all or any part of a Shareholder's provisional allotment should be made by completing a PAL and lodging the same with a remittance for the Rights Shares being applied for.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the then existing Shares in issue. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the Rights Shares in their fully-paid form.

Application for excess Rights Shares

The Qualifying Shareholders (other than the Underwriter) shall be entitled to apply for (a) any unsold Rights Shares which would have been allotted to the Non-Qualifying Shareholders had they been the Qualifying Shareholders, (b) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise subscribed for by renouncees or transferees of nil-paid Rights Shares, and (c) any unsold Rights Shares created by aggregating fractions of the Rights Shares. Application may be made only by the Qualifying Shareholders (other than the Underwriter) and only by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Share Registrar by a time which is currently expected to be 4:00 p.m. on Friday, 22nd March, 2013 or such later time as may be agreed between the Company and the Underwriter.

The Board will, upon consultation with the Underwriter, allocate the excess Rights Shares being applied for at its discretion and on a fair and equitable basis and on the following principles:

(1) subject to the availability of excess Rights Shares, preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings where it appears to the Directors that such applications are not made with the intention to abuse such mechanism; and

(2) subject to the availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to the Qualifying Shareholders (other than the Underwriter) based on a sliding scale with reference to the number of the excess Rights Shares applied for by them (i.e. the Qualifying Shareholders applying for a smaller number of Rights Shares will be allocated a higher percentage of the excess Rights Shares they have applied for; whereas the Qualifying Shareholders applying for a larger number of Rights Shares will be allocated a lower percentage of the excess Rights Shares they have applied for (although they will receive a greater number of Rights Shares than those applying for a smaller number).

Investors whose Shares are held by a nominee company (or which are held in CCASS) should note that the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of a nominee (or which are held in CCASS) should note that the aforesaid arrangement for top-up of odd lots in relation to the allocation of the excess Rights Shares will not be extended to them individually. Beneficial owners with their Shares held by a nominee company (or which are held in CCASS) are advised to consider whether they would like to arrange for the relevant Shares to be registered in their own names prior to the Record Date.

Investors whose Shares are held by nominee(s) (or which are held in CCASS) and who would like to have their name registered on the register of members of the Company must lodge all necessary documents with the Share Registrar for completion of the relevant registration by 4:30 p.m. on Tuesday, 5th March, 2013.

Fractions of the Rights Shares

The Company will not provisionally allot and will not accept application for any fraction of the Rights Shares. No odd lot matching services will be provided. All fractions of the Rights Shares will be aggregated (rounded down to the nearest whole number). All nil-paid Rights Shares arising from such aggregation will be provisionally allotted (in nil-paid form) to the Underwriter or its nominee, and will be sold in the market and the proceeds will be retained by the Company for its own benefit, if a premium (net of expenses) can be obtained. Any unsold Rights Shares arising from such aggregation will be made available for excess application by the Qualifying Shareholders (other than the Underwriter).

Share certificates and refund cheques for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue and the Underwriting Agreement as set out in the section headed "Conditions of the Rights Issue and the Underwriting Agreement" below, share certificates for all fully-paid Rights Shares are currently expected to be sent by ordinary post on or before Thursday, 28th March, 2013, to the Qualifying Shareholders who have validly accepted and applied for (where appropriate), and paid for the Rights Shares, at their own risk.

Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be sent by ordinary post on or before Thursday, 28th March, 2013 to the applicants at their own risk.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must (a) be registered as a member of the Company as at 5:00 p.m. on the Record Date; and (b) not be a Non-Qualifying Shareholder. In order to be registered as members of Company at 5:00 p.m. on the Record Date, all transfer documents of the Shares must be lodged (together with the relevant share certificate(s)) with the Share Registrar by 4:30 p.m. (Hong Kong time) on Tuesday, 5th March, 2013. The last day of dealings in the Shares on a cum-rights basis is Friday, 1st March, 2013. The Shares will be dealt with on an ex-rights basis from Monday, 4th March, 2013. The particulars of the Share Registrar are as follows:

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

The Company will send the Rights Issue Documents to the Qualifying Shareholders on the Prospectus Posting Date.

Non-Qualifying Shareholders

If there are Overseas Shareholders at 5:00 p.m. on the Record Date, the Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

The Board will make enquiries pursuant to Rule 13.36(2)(a) of the Listing Rules as to the applicable securities legislation of the relevant overseas jurisdictions or the requirements of any relevant regulatory body or stock exchange for the issue of the Rights Shares to the Overseas Shareholders and the results of the enquiries will be included in the Prospectus. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient, on account of either the legal restrictions under the laws of the relevant jurisdiction or any requirement of the relevant regulatory body or stock exchange in that jurisdiction, not to offer the Rights Shares to any of the Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas

Shareholders. Accordingly, the Rights Issue will not be extended to the Non-Qualifying Shareholders and no Rights Shares will be provisionally allotted to them. The Company will, to the extent reasonably practicable, send the Prospectus to the Non-Qualifying Shareholders for their information only on the Prospectus Posting Date but will not send the PALs or the EAFs to them. The Rights Issue Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. The basis of exclusion of the Non-Qualifying Shareholders, if any, from the Rights Issue will be disclosed in the Prospectus.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange but before the last date for dealings in nil-paid Rights Shares, if a premium (net of expenses) can be obtained. The proceeds of each sale, less expenses and stamp duty, of more than HK$100 will be paid by the Company to the relevant Non-Qualifying Shareholder(s) pro rata to their shareholdings in the Company at 5:00 p.m. on the Record Date in Hong Kong dollars. The Company will retain individual amounts of HK$100 or less for the benefit of the Company. Any unsold entitlements of the Non-Qualifying Shareholders will, as referred to above, be made available to meet excess applications on EAFs by the Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue subject to the results of the enquiries made by the Directors pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, the Overseas Shareholders should exercise caution when dealing in the Shares.

Closure of Register of Members of the Company

The register of members and the Hong Kong branch register of members of the Company are currently expected to be closed on 6th March, 2013 to 7th March, 2013 for the purpose of, among other things, establishing entitlements to the Rights Issue. No transfer of Shares will be registered during this book closure period.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. Nil-paid Rights Shares are expected to be traded in board lots of 2,000 (as the Shares are currently traded on the Stock Exchange in board lots of 2,000). It is expected that dealings in Rights Shares in their nil-paid form will take place from 12th March, 2013 to 19th March, 2013, both days inclusive. No part of the securities of the Company in issue or for which listing or permission to deal is being or is proposed to be sought is listed or dealt in or on any other stock exchange.

Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

Rights Shares will be eligible for admission into CCASS

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date	:	8th January, 2013
Underwriter	:	Up Energy Group Ltd.
Number of Rights Shares	:	848,895,627
Number of Underwritten Shares	:	All Underwritten Shares (excluding the 236,783,474 Rights Shares to be provisionally allotted to the Underwriter)
Commission	:	2% of the aggregate Subscription Price of the total Underwritten Shares (excluding the 236,783,474 Rights Shares to be provisionally allotted to the Underwriter; and The amount of underwriting commission is about HK$6.1 million. The underwriting commission was determined after arm’s length negotiations between the Company and the Underwriter and the respective Boards (excluding those Directors who are members of the Independent Board Committee) and the Underwriter (including, in the case of the Underwriter, its non-executive Directors and independent non-executive Directors) consider that the underwriting commission is fair and reasonable and is on normal commercial terms. All sums payable by the Company in this connection shall be satisfied by deduction from the amount payable by the Underwriter to the Company in relation to taking up its assured entitlements of the Rights Shares.

As at the Latest Practicable Date, the Underwriter owns as to 27.89% of the issued share capital of the Company and is a substantial shareholder of the Company.

The Board considers that the Underwriting Agreement is on normal commercial terms and is fair and reasonable so far as the Shareholders are concerned.

Termination of the Underwriting Agreement

The Underwriter may, at its sole and absolute discretion, by notice in writing to the Company at any time before 5:00 p.m. on the Business Day immediately following the Final Acceptance Date, terminate the Underwriting Agreement, if at any time before 5:00 p.m. on the Business Day immediately following the Final Acceptance Date:

(a) there has developed, occurred, existed or come into effect:

  (i) the introduction of any new law or regulation or any change in existing laws or regulations, or the judicial interpretation of such laws or regulations, or any other similar matter or event which has a material adverse effect on the business or financial condition of the Group as a whole; or

  (ii) any change in local, national or international economic, financial or political conditions or any matter or event beyond the control of the Company and/or the Underwriter (including acts of government, economic sanctions, strikes, riot, fire, explosion, flooding, earthquake, civil commotion, act or declaration of war, outbreak or escalation of hostilities, act of terrorism, acts of God, pandemic, outbreak of infectious disease, declaration of a state of emergency or calamity or crisis or accident) which is materially adverse in the context of the Rights Issue or makes it inadvisable or inexpedient to proceed with the Rights Issue; or

  (iii) any change in local, national or international stock market conditions (including any moratorium, suspension of or material restriction on trading in securities generally) which materially and adversely affects the Rights Issue or makes it inadvisable or inexpedient to proceed with the Rights Issue; or

  (iv) any change, or any development involving a prospective change, in taxation in Hong Kong, the PRC or any other jurisdiction to which any member of the Group is subject, or the implementation of any exchange control, which materially and adversely affects any member of the Group or its shareholders in their capacity as such; or

(b) there comes to the notice of the Underwriter any matter or event showing any of the warranties to be untrue or inaccurate in a material respect which is materially adverse in the context of the Rights Issue; or

(c) the listing of and permission to deal in the Rights Shares have been withdrawn by the Stock Exchange; or

(d) the Company is in breach of any of its obligations under this Agreement which is material in the context of the Rights Issue.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

Irrevocable Undertakings

As at the Latest Practicable Date, the Underwriter, a substantial shareholder of the Company, and parties acting in concert with it, beneficially owns, controls or has direction over 473,566,949 Shares, representing approximately 27.89% of the total issued Shares. As at the Latest Practicable Date, the Underwriter holds Convertible Notes in the principal amount of HK$3,197,238,578 issued by the Company, which can be converted into 1,598,619,289 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. As at the Latest Practicable Date, Up Energy Capital Limited, a concert party of the Underwriter, holds Convertible Notes in the principal amount of HK$275,000,000, which can be converted into 137,500,000 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions, and the other Shareholders (excluding the Underwriter and Up Energy Capital Limited) hold Convertible Notes in the principal amount of HK$1,454,508,674 in aggregate, which can be converted into 727,254,337 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. Save as disclosed above, there are no outstanding derivatives in respect of securities in the Company entered into by the Underwriter or any person acting in concert with it. Pursuant to the Underwriting Agreement, the Underwriter has irrevocably undertaken to the Company, among other things, that (i) it controls, and will from the date of the Underwriting Agreement up to the Record Date control in aggregate 473,566,949 Shares; (ii) it shall not, within the period commencing on the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of, any Shares held by it or in which it is beneficially interested; and (iii) subject to fulfilment (or waiver) of the conditions of the Rights Issue and the Underwriting Agreement aforesaid and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof, it will take up (or procure to be taken up) its provisional entitlements under the Rights Issue. Save for those Rights Shares which the Underwriter has irrevocably undertaken to take up (or procure to be taken up), the Rights Issue is fully underwritten by the Underwriter.

Conditions of the Rights Issue and the Underwriting Agreement

The Rights Issue and the obligations of the Underwriter under the Underwriting Agreement are conditional upon the following conditions being fulfilled:

(a) the approval by the Independent Shareholders of the Whitewash Waiver, in each case by way of poll at the SGM in accordance with the Takeovers Code by no later than the Prospectus Posting Date;

(b) the grant by the Executive, and not having withdrawn or revoked such grant, of the Whitewash Waiver, and the fulfilment of all conditions, if any, attached to it;

(c) the delivery to the Stock Exchange for authorisation, and the registration with the Registrar of Companies in Hong Kong, respectively, not later than the Prospectus Posting Date, of one copy of each of Rights Issue Documents for use by the

Qualifying Shareholders to apply for the Rights Shares under their entitlements, duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached to it) and otherwise in compliance with the Listing Rules and the Companies Ordinance;

(d) the filing with the Registrar of Companies in Bermuda prior to or as soon as reasonably practicable after the Prospectus Posting Date of one copy of each of the Rights Issue Documents for use by the Qualifying Shareholders to apply for the Rights Shares under their entitlements, duly signed by either all Directors or one of the Directors (for and on behalf of all Directors) and all other documents required to be attached to it and otherwise in compliance with the Companies Act;

(e) the despatch of the Rights Issue Documents to the Qualifying Shareholders, and the despatch of the Prospectus stamped ''For Information Only'' to the Non-Qualifying Shareholders (if and to the extent legally and practically permissible) on the Prospectus Posting Date; and

(f) the grant (subject to allotment) by the Listing Committee of the Stock Exchange, and not having withdrawn or revoked such grant, of the listing of and permission to deal in all the Rights Shares, either unconditionally or subject to such conditions as are accepted by the Company (and the satisfaction of such conditions (if any and where relevant) on or prior to 4:00 p.m. on the day next following the day being the latest time for acceptance of and payment for the Rights Shares as stated in the Prospectus (or such other day as may be agreed in writing between the Underwriter and the Company).

The Underwriter may waive the condition set out in paragraph (b) above and such waiver may be made subject to such terms and conditions as the Underwriter may reasonably determine. The other conditions stated in paragraphs (a) and (c) to (f) above cannot be waived.

If any of the above conditions is not fulfilled or waived on or before the Long Stop Date, or shall become incapable of being fulfilled on or before such time or date without being so waived, the Underwriting Agreement may be terminated by the Underwriter by written notice to the Company and the Rights Issue will not proceed. As the Rights Issue is subject to the above conditions, it may or may not proceed accordingly.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

Reasons for the Rights Issue

The Board (excluding those Directors who are members of the Independent Board Committee) believes that it would be in the interests of the Company and the Shareholders as a whole to raise long-term equity funding via the proposed Rights Issue to strengthen the Company's financial position and capital base to enable it to carry on its major business in the currently challenging operating environment. The Rights Issue enables the Company to carry out a fund raising exercise while the Qualifying Shareholders are given the opportunity to maintain their respective pro rata shareholding interest in the Company by participating in the Rights Issue. **However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted.**

The Company has considered alternative means of financing, including other forms of equity financing and debt financing. Debt financing and bank borrowing will incur additional finance costs and increase the gearing ratio of the Group, while the Rights Issue provides a relatively cost effective way to finance the Group without increasing the gearing ratio and causing immediate dilution to the shareholding interests of the existing Shareholders if the Shareholders participate in the Rights Issue. Placing of new shares, unlike a rights issue which offers an opportunity for the existing Shareholders to participate in the enlargement of the capital base of the Company, will result in immediate dilution to the shareholding interests of the existing Shareholders. As such, the directors do not consider a share placement as a desirable alterative to the Rights Issue. An open offer does not have nil-paid rights while a rights issue allows the Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue in full to have the opportunity to realize the value of their nil-paid rights shares by trading them in the market.

The Company has also considered that the proposed Rights Issue, combined with the potential conversion of the existing Convertible Notes issued by the Group, may substantially enhance the capital base of the Group and lower its gearing level.

Having considered various financing alternatives available to the Group, the Directors believe the Rights Issue to be the most appropriate method of fund raising and in the best interest of the Company and the Shareholders, as opposed to other alternative means of financing.

Use of Proceeds

The estimated net proceeds of the Rights Issue will be approximately HK$415.8 million. The Company plans to apply all the net proceeds from the Rights Issue towards capital expenditures of the existing projects, which include civil construction of underground mines and ground-level plants and procurement of coal washing, blending and coking equipment and facilities. The existing projects include the Xiaohuangshan Mine, the Shizhuanggou Mine and Quanshuigou Mine and the coal coking project, the coal washing project and the water recycling project (together, the "**Existing Projects**"). Approximately HK$86.7 million will be applied to Xiaohuangshan Mine, HK$182.4 million will be applied to the Shizhuanggou Mine and Quanshuigou Mine, HK$104.0 million will be applied to the coal coking project, HK$32.8 million will be applied to coal washing project and HK$9.9 million will be applied to water recycling project. The remaining, if any, is intended for general corporate use. The Convertible Notes will mature on 18th January, 2016 and does not provide for early redemption. The Company has no intention to apply the net proceeds of the Rights Issue to repay any part of the Convertible Notes.

As advised by the Directors, based on the estimates of corporate construction management team, the total expected capital expenditure is approximately HK$922 million as at the Latest Practicable Date, with an addition of some annual normal corporate administrative and development expenses estimated at approximately HK$60 million per year. As at the Latest Practicable Date, the Directors plan to finance the aforesaid expected capital expenditure and estimated expenses with the proceeds of the Rights Issue and the Group's existing available cash and bank balance of approximately HK$600 million as at 31 December 2012.

The expected expenses of the Rights Issue (including the underwriting commission, printing, registration, translation, legal, accounting and documentation charges) are estimated to be approximately HK$8.7 million and will be payable by the Company. The net subscription price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares is expected to be approximately HK$0.49 per Rights Share.

WARNING OF THE RISK OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

Existing Shares are currently expected to be dealt in on an ex-rights basis from 4th March, 2013. Dealings in the Rights Shares in nil-paid form are expected to take place from 12th March, 2013 to 19th March, 2013 (both days inclusive). The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional. If the Underwriter terminates the Underwriting Agreement (please see the paragraph headed "Termination of the Underwriting Agreement" above), or if the conditions of the Rights Issue and the Underwriting Agreement (please see the section headed "Conditions of the Rights Issue and the Underwriting Agreement" above) are not fulfilled or waived, the Rights Issue will not proceed.

Shareholders should note that the Shares are currently expected to be dealt with on an ex-rights basis commencing on Monday, 4th March, 2013 and that dealings in the Shares will take place while the Underwriting Agreement remains conditional. Any Shareholders or other persons dealing in the Shares up to the date on which all conditions of the Rights Issue are fulfilled or waived, will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

Any Shareholder or other person contemplating transferring, selling or purchasing Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or Rights Shares. Any person who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (including the date on which the Underwriters' right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming that (a) the Rights Issue proceeds and is completed; (b) the Underwriter's provisional allotments under the Rights Issue are taken up in full subject to and in accordance with the Underwriting Agreement; (c) there is no change in the shareholding structure of the Company from the Latest Practicable Date before completion of the Rights Issue; and (d) there are no Non-Qualifying Shareholders, set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Rights Issue:

			Immediately after completion of the Rights Issue *(Note 1)*							
Name of Shareholder	**As at the Latest Practicable Date**		**Scenario 1: Assuming none of the Convertible Notes are converted into Shares** *(Note 5)* **and assuming that all Rights Shares are taken up by the Qualifying Shareholders**		**Scenario 2: Assuming none of the Convertible Notes are converted into Shares** *(Note 5)* **and assuming that no Rights Shares are taken up by the Qualifying Shareholders other than the Underwriter**		**Scenario 3: Assuming all of the Convertible Notes are converted in full** *(Note 5)* **and assuming that all Rights Shares are taken up by the Qualifying Shareholders**		**Scenario 4: Assuming all of the Convertible Notes are converted in full** *(Note 5)* **and assuming that no Rights Shares are taken up by the Qualifying Shareholders other than the Underwriter**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
The Underwriter *(Note 3)*	473,566,949 *(Note 2)*	27.89	710,350,423	27.89	1,322,462,576	51.93	2,308,969,712	46.09	2,921,081,865	58.31
Up Energy Capital Limited *(Note 4)*	—	—	—	—	—	—	137,500,000	2.74	137,500,000	2.74
Other Shareholders	1,224,224,306	72.11	1,836,336,459	72.11	1,224,224,306	48.07	2,563,590,796	51.17	1,951,478,643	38.95
Total	1,697,791,255	100.00	2,546,686,882	100.00	2,546,686,882	100.00	5,010,060,508	100.00	5,010,060,508	100.00

Notes:

1. The numbers and percentages are based on the stated assumptions and are hence included for illustrative purposes only.

2. These Shares are held directly by the Underwriter. The Underwriter is in turn held by several layers of holding companies, which are presumed to be acting in concert with the Underwriter under the Takeovers Code.

3. Pursuant to its underwriting obligations.

4. Up Energy Capital Limited is wholly-owned by Mr. Qin Jun, the chairman and a Director of the Company, and is therefore a concert party of the Underwriter. Accordingly, Mr. Qin Jun is deemed to be interested in the Shares and security interests in the Company held by Up Energy Capital Limited.

5. The conversion rights under the Convertible Notes shall not be exercised if (i) the Company will not be able to meet the public float requirement under the Listing Rules, and (ii) a mandatory general offer obligation under the Takeovers Code will be triggered on the part of the Noteholder together with the parties acting in concert with it.

Pursuant to the Underwriting Agreement, the Underwriter has undertaken to the Company that, if the subscription of the Rights Shares by the Underwriter pursuant to its underwriting obligations under the Underwriting Agreement will result in the public float of the Company falling below the minimum percentage level as prescribed by the Listing Rules, the

Underwriter shall take all necessary steps to place down such number of such Shares to independent placees with a view to enabling the Company to comply with the public float requirement under the Listing Rules by close of business on the first day of dealing in the Rights Shares. The Company will closely monitor the shareholdings in the Company and take such appropriate steps as may be necessary or required to maintain the minimum public float in compliance with the requirements of the Listing Rules.

FUND-RAISING EXERCISE OF THE COMPANY DURING THE PAST TWELVE MONTHS

The Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the past 12 months prior to the date of the Announcement and up to the Latest Practicable Date.

LISTING AND DEALINGS

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. It is expected that dealings in the Rights Shares in their nil-paid form will take place from 12th March, 2013 to 19th March, 2013, both days inclusive.

DEALING IN SHARES BY THE UNDERWRITER AND PARTIES ACTING IN CONCERT WITH IT

None of the Underwriter or parties acting in concert with it has any dealings in any securities of the Company in the six-month period preceding the date of the Announcement up to the Latest Practicable Date.

WHITEWASH WAIVER

Assuming no Qualifying Shareholders other than the Underwriter take up their provisional entitlements of the Rights Shares, the Underwriter's shareholding in the Company may be increased, pursuant to the Underwriting Agreement, from its current 473,566,949 Shares representing about 27.89% of the issued Shares of the Company to 1,322,462,576 Shares representing about 51.93% of the issued Shares of the Company as enlarged by the Rights Issue.

Upon completion of the Rights Issue, the maximum potential holding of the Underwriter and parties acting in concert with it may exceed 50% of the then issued share capital of the Company in which case, the Underwriter and parties acting in concert with it may increase their shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

An application has been made to the Executive for the Whitewash Waiver, pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations of the Underwriter and the parties acting in concert with it to make such a mandatory general offer. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders of the Company at the SGM by way of poll.

The Executive has agreed that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders by way of poll at the SGM in which Shareholders who are involved in, or interested in, the Rights Issue and/or the Whitewash Waiver (including the Underwriter and parties acting in concert with it) will abstain from voting.

Save for the Convertible Notes, the Company does not have any outstanding derivatives, and there are (a) no arrangements (whether by way of option, indemnity or otherwise) in relation to the shares of the Underwriter or the Company and which might be material to the Rights Issue, the Underwriting Agreement or the Whitewash Waiver; (b) no agreements or arrangements to which the Underwriter is a party which relate to the circumstances in which the Underwriter may or may not invoke or seek to invoke a precondition or a condition to the Rights Issue, the Underwriting Agreement or the Whitewash Waiver; and (c) no borrowing or lending of any relevant securities (as defined in note 4 of Rule 22 of the Takeovers Code) of the Company by the Underwriter and the parties acting in concert with it as at the Latest Practicable Date.

Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on the approval of the Independent Shareholders of the Company at the SGM in accordance with the requirements of the Takeovers Code. The Underwriter and the parties acting in concert with it will be regarded as Shareholders who are involved or interested in the transactions regarding the Whitewash Waiver and they shall not be entitled to vote at the SGM.

If the Whitewash Waiver is not granted by the Executive or if the conditions imposed thereon are not fulfilled as aforementioned, the Underwriter may waive the Whitewash Waiver condition to the Underwriting Agreement and may proceed with a mandatory general offer as required by Rule 26.1 of the Takeovers Code. The Underwriter will comply with the Takeovers Code where necessary.

Save for the Underwriting Agreement, for which the Underwriter provides irrevocable commitments to accept the Rights Shares, the Company has not received any irrevocable commitments to accept or reject the Rights Shares or to vote in favour of or against the Rights Shares or the Whitewash Waiver.

INFORMATION OF THE GROUP AND THE UNDERWRITER

Information of the Group

The Group is principally engaged in the mining, washing and marketing of coking coal in the PRC.

The Company is the first listed company engaged in coking coal business in Xinjiang Uygur Autonomous Regions ("**Xinjiang**") in China. With headquarters in Fukang City in northern Xinjiang close to the regional capital Urumqi, the Group principally engaged in mining of coking coal, production and sales of raw coking coal, clean coking coal, coking and chemical products. Since 2003, the Group has been actively engaged in the development of coal business. To realize the business concept of "increased value in circulation", the Group started from coal resources exploration and gradually established a complete set of upstream and downstream projects with the business model of circulative economy, which includes raw coal mining, raw coal washing, coal coking, cogenerating and coal mine gas utilizing. The Group currently has three downstream ancillary projects (the "**Phase One Project**") including the coal coking project, raw coal washing project and water recycling project.

As disclosed in the Company's interim report for the six months ended 30 September 2012, the construction progress of the Group's coal mines were delayed in 2012 due to the strengthening of the management of safe production and safety inspection, especially during the convocation of the 18th National Congress, which increased occasional shutdowns of the coal mines for inspection and shortened the period available for construction.

As at the latest Practicable Date, the expected aggregate amount of capital expenditures of the Group would be approximately HK$922 million. The amount includes Xiaohuangshan Mine, Shizhuanggou Mine and Quanshuigou Mine and three downstream ancillary industrial projects close to Fukang city in Wuchang region of northern Xinjiang of China. As at 30th September, 2012, the JORC-compliant measured, indicated and inferred coal resources of Xiaohuangshan Mine, Shizhuanggou Mine and Quanshuigou Mine amounted to approximately 107 Mt, 73 Mt and 71 Mt, respectively, and the JORC-compliant proven and probable marketable coal reserves of Xiaohuangshan Mine, Shizhuanggou Mine and Quanshuigou Mine amounted to be approximately 26 Mt, 24 Mt and 21 Mt, respectively.

The Xiaohuangshan Mine is expected to commence commercial production in the second quarter of 20l3, and the commercial productions for Shizhuanggou Mine and Quanshuigou Mine and the three ancillary projects are expected to commence in the third quarter of 2013.

Regarding the Xiaohuangshan Mine, the construction of the underground shaft station, ventilation shaft, haulage crosscuts and transportation (rail and roads) have been completed. Several ancillary facilities to the Xiaohuangshan Mine, including warehouse, office and living areas have also been completed. For the ground-level infrastructure, the landing shaft with winding facilities, equipment installation and preparation work for production including trial run are in progress.

Regarding the Shizhuanggou Mine, testing and turning of equipment is scheduled to be carried out during the third quarter of 2013 in preparation for trial production. The construction of a 530-meters long vertical ventilation shaft, haulage crosscuts (road and rail) and shaft station of district rise of the shaft sinking and drifting project has been completed and the construction work of the district rise is in its final stages. For the ground-level infrastructure, the construction of 110 kV Kilovolts ("**kV**") electricity transmitting and transforming facilities, buildings at shaft entrance, and material warehouse has been completed. The administrative services complex and the hoist room of auxiliary inclined shaft are under construction, while equipment installation and testing are also being carried out.

Regarding the Quanshuigou Mine, all system testing and tuning is expected to be completed in the third quarter of 2013 in preparation for trial production. The construction of a 410-meters long vertical ventilation shaft, +680-meters shaft bottom station underground chamber and haulage crosscuts (road and rail) have been completed. The preparation work for the district rise construction project is undergoing. For the ground-level infrastructure, the construction of 35 kV electricity transmitting and transforming facilities, construction of hoist room of auxiliary shaft and the installation and test run of hoist, the construction of material warehouse has been completed. The main construction work of the mine office building, canteen, staff duty-shift quarters and the buildings at shaft entrance have reached the final stages.

Regarding the progress of the three downstream ancillary projects, the brick work of the cookery has been completed and the iron casting has been installed. The five major machinery parts of the cookery have been assembled and the hydraulic and electric systems are being installed. Aerial conveyors are being connected and the major construction works of coal preparation, quenching and coking coal selection and storage systems have been completed, and major equipment is being installed. The external pipe bridge and chemical recovery system have been completed, while the gas turbine and primary cooler are now being installed. Major utilities and ancillary facilities structures such as integrated water supply and boilers have also been completed and major equipment are being installed to the buildings, such as air compressor, boiler and electricity compressor and transmitter. The construction of an underground pipeline network has been completed and the installation of a processing pipeline and power cable are now being organized. All system testing and tuning are expected to be completed in the third quarter of 2013 in preparation for trial production.

The raw coal washing project has completed construction of major structures such as a concentrating plant, a contingent storage tank, medicine library, coal refuse storage, and a laboratory building. Primary construction work on the selection and crushing plant and main washing plant have also been completed, and 21 sessions of aerial coal transportation corridor have been connected. Construction work on the underground pipeline network system have been finished and the installation of a power cable is now being organized. All production facilities have been procured and ordered. All system testing and tuning are expected to be completed in the third quarter of 2013 in preparation for trial production.

The water recycling project's design work as well as a 10.5 km water pipe has been completed. All system testing and turning is expected to be finished in the third quarter of 2013 in preparation for trial production.

The Group has the vision to assess the viability of a phase two project, whereby an extension of the production facilities to Phase One Project will be constructed (the "**Phase Two Project**"). Phase Two Project is currently at a preliminary stage, the feasibility research of the Phase Two Project is currently in progress and the Group has not yet obtained approval from administrative authorities. The Group plans to execute the Phase Two Project upon completion of definitive feasibility study on the Phase Two Project and the completion of the Phase One Project. As at the Latest Practicable Date, the Group has not formed a solid plan to develop the Phase Two Project and will remain its focus, in terms of capital allocation, on developing and completing its Phase One Project. Hence, there are no proposed amount of capital expenditures, timetable, nor method of financing for Phase Two Project.

Information of the Underwriter

The Underwriter is an investment holding company incorporated in the BVI and is a substantial shareholder of the Company, and is able to nominate a maximum of eight Directors, which could include executive Directors, non-executive Directors, and independent non-executive Directors, to the Board of the Company.

The principal activities of all the holding companies of the Underwriter are investment holding and does not include underwriting. Credit Suisse Trust Limited provides trust services. Mr. Qin Jun, the chairman of the Company, is responsible for the business operation of the Group, and Ms. Wang Jue, Mr. Qin Jin's wife, is an investor of the Group.

INTENTION OF THE UNDERWRITER

It is the intention of the Underwriter, being a substantial shareholder of the Company, that the Group will continue its current business and its employment of the employees of the Group, and the Rights Issue provides an opportunity of the Group to obtain long-term capital to strengthen its capital base. The Underwriter has no intention to make any major changes to the business or employment of employees of the Group, to change the existing members of the Board, to redeploy the fixed assets of the Group, or to inject any new business to the Group. The Underwriter also does not have any intention or negotiation (concluded or otherwise) on any disposal/termination/scaling down of the current business.

TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in the Rights Shares and, as regards the Non-Qualifying Shareholders, their receipt of the net proceeds of sale of the Rights Shares in their nil-paid form otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of the holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

SGM

There is set out on pages IV-1 to IV-2 of this circular a notice convening the SGM to be held at 11:00 a.m. on 28th February, 2013 at Plaza 1–2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, at which an ordinary resolution will be proposed to consider, and, if thought fit, to approve, the Whitewash Waiver.

At the SGM, Shareholders who are involved in, or interested in, the Rights Issue and/or the Whitewash Waiver (including the Underwriter and parties acting in concert with any of them), namely Up Energy Group Ltd. and Up Energy Capital Limited, will abstain from voting on the resolution to approve the Whitewash Waiver as set out in the notice of the SGM. The respective shareholdings of the above Shareholders are set out in the notes under the paragraph "Effect of the Rights Issue on the Shareholding Structure of the Company" in this circular.

A form of proxy for use at the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney to the office of the Share Registrar at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

POLL PROCEDURE

The votes to be taken at the SGM will be taken on by a poll, the results of which will be announced after the SGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 31 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the Whitewash Waiver.

Your attention is also drawn to the letter from the IFA which contains its advice to the Independent Board Committee and the Independent Shareholders as regards to the Rights Issue and the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat. The text of the letter from the IFA is set out on pages 32 to 58 of this circular.

The Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) consider that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding those Directors who are members of the Independent Board Committee, whose views are included in the section headed "Letter from the Independent Board Committee" in this circular) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Whitewash Waiver and the transactions contemplated thereunder. You are advised to read the letter from the Independent Board Committee and the letter from the IFA mentioned above before deciding how to vote on the resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Up Energy Development Group Limited
Qin Jun
Chairman

Up Energy Development Group Limited
優派能源發展集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 307)

8th February, 2013

To the Independent Shareholders

Dear Sir or Madam,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES (II) APPLICATION FOR WHITEWASH WAIVER AND (III) NOTICE OF SPECIAL GENERAL MEETING

We refer to the "Letter from the Board" set out in the circular dated 8th February, 2013 (the "**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Rights Issue and the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue and Whitewash Waiver and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the SGM to approve the Whitewash Waiver. VC Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and Whitewash Waiver.

We wish to draw your attention to the letter from the IFA to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Rights Issue and Whitewash Waiver as set out in the Circular. We also draw your attention to the Letter from the Board.

Having taken into account principal factors and reasons considered by and the opinion of the IFA as stated in its letter of advice, we are of the view that the Rights Issue is a fair and reasonable method for the Company to strengthen capital base and obtain long-term capital, and are of the view that the Whitewash Waiver, which is to facilitate the implementation of the Rights Issue, and the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Independent Board Committee

Chau Shing Yim, David	**Li Bao Guo**	**Lien Jown Jing, Vincent**	**Shen Shiao Ming**
Non-executive Director	*Independent non-executive Directors*		

* *For identification purposes only*

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from VC Capital Limited in respect of the terms of the Rights Issue and the Whitewash Waiver prepared for the purpose of incorporation into this circular.

VC CAPITAL LIMITED
滙盈融資有限公司

8th February, 2013

To: *The Independent Board Committee and the Independent Shareholders of Up Energy Development Group Limited*

Dear Sir or Madam,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES AND (II) APPLICATION OF WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 8th February, 2013 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 8th January, 2013, the Company announced, among other things, the Rights Issue and the Whitewash Waiver. The Company proposes to raise approximately HK$424.0 million, before expenses, by issuing 848,895,627 Rights Shares by way of a Rights Issue at the Subscription Price of HK$0.50 per Rights Share on the basis of 1 Rights Share for every 2 existing Shares held by the Qualifying Shareholders at 5:00 p.m. on the Record Date. The Rights Issue is not available to the Non-Qualifying Shareholders.

The Rights Issue is fully underwritten (other than an aggregate of 236,783,474 Rights Shares to be provisionally allotted to the Underwriter) by Up Energy Group Ltd. (the "**Underwriter**") subject to the terms and conditions set out in the Underwriting Agreement.

As at the Latest Practicable Date, the Underwriter and parties acting in concert with it, beneficially owns, controls or has direction over 473,566,949 Shares, representing approximately 27.89% of the total issued Shares. As at the Latest Practicable Date, the Underwriter holds Convertible Notes in the principal amount of HK$3,197,238,578 issued by the Company, which can be converted into 1,598,619,289 Shares at the current conversion price of HK$2 per Share, subject to the Terms and Conditions. As at the Latest Practicable Date, Up Energy Capital Limited, a concert party of the Underwriter, holds Convertible Notes in the principal amount of HK$275,000,000, which can be converted into 137,500,000 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. Upon completion of the Rights Issue, the shareholding in the Company held by the Underwriter and its concert parties may be increased to 1,322,462,576 Shares (assuming none of the CNs are converted into Shares and assuming that no Rights Shares are taken up by the Qualifying Shareholders other than the Underwriter), representing approximately 51.93% of the issued Shares of the Company as enlarged by the Rights Issue, or 2,921,081,865 Shares (assuming all of the CNs are converted in full and assuming that no Rights Shares are taken up by the Qualifying Shareholders other than the Underwriter), representing approximately 58.31% of the issued Shares as enlarged by the Rights Issue.

The Underwriting Agreement may potentially increase the shareholdings of the Underwriter in the Company to 30% or more within the meaning of the provisions of Rule 26.1 of the Takeovers Code, in which case a mandatory offer obligation will arise on the part of the Underwriter and the parties acting in concert with it to make an offer to acquire all the Shares not otherwise owned, controlled or agreed to be acquired by them. An application has been made to the Executive for the Whitewash Waiver, pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations of the Underwriter and the parties acting in concert with it to make such a mandatory general offer. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll.

An Independent Board Committee, comprising Mr. Chau Shing Yim, David, Mr. Li Bao Guo, Mr. Lien Jown Jing, Vincent and Dr. Shen Shiao Ming, being all the non-executive Directors, has been established to advise the Independent Shareholders as to (i) whether the Rights Issue and the Whitewash Waiver which is to facilitate the implementation of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the Whitewash Waiver at the SGM.

In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to (i) whether the terms of the Rights Issue and the Whitewash Waiver which is to facilitate the implementation of the Rights Issue are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the Whitewash Waiver at the SGM. Our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Rights Issue and the Whitewash Waiver has been approved by the Independent Board Committee.

VC Capital Limited ("**VC Capital**") is not associated with the Company, the Underwriter or their respective substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the terms of the Rights Issue and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company, the Underwriter or their respective substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied and opinions expressed by the management of the Group. We have assumed that all information and representations provided by the management of the Group, for which they are solely responsible, were true and accurate at the time they were prepared or made and will continue to be so up to the Latest Practicable Date. Should there be any subsequent material changes which occurred during the period from the date of the Circular up to the date of the SGM and would affect or alter our opinion, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible. We have no reason to doubt the truth, accuracy or completeness of the information and representations made to us by the management of the Group. We have been advised that no material facts have been omitted from the information supplied and opinions expressed. As such, we have no reason to suspect that any relevant information has been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided by the management of the Group to us, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information provided by the management of the Group.

All Directors issuing the Circular jointly and severally accept full responsibility for the accuracy of information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Rights Issue and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Background information of the Company

The Company changed to its present name "Up Energy Development Group Limited" on 14th February, 2011 subsequent to its very substantial acquisition of the entire issued shares of Up Energy Investment (China) Ltd. on 18th January, 2011. Since then, the Group has been focusing on the new coking coal business whilst it was still engaged in the multi-media product and components trading business. During the year ended 31st March, 2012, the Group has discontinued most of its multi-media products components trading operations.

The Group is now principally engaged in the mining, washing and marketing of coking coal in the PRC. According to the interim report of the Company for the six months ended 30th September, 2012 (the "**Interim Report 2012**"), the Group had three coal mines in Fukang, Xinjiang of China, namely Xiaohuangshan Mine, the Shizhuanggou Mine and Quanshuigou Mine (the "**Three Coal Mines**"). As at 30th September, 2012, the Group had a total of 251.15 Mt of JORC-compliant measured, indicated and inferred coal resources and a total of 70.24 Mt of JORC-compliant proved and probable marketable coal reserves. In addition, the potential coal reserves of the Shizhuanggou Mine and Quanshuigou Mine amounted to 51.94 Mt in total.

The following table summarises the financial information of the Group for each of the two years ended 31st March, 2012 and for the six months ended 30th September, 2012 as extracted from the annual report of the Company for the year ended 31st March, 2012 (the "**Annual Report 2012**") and the Interim Report 2012 respectively. Please refer to the "Financial information of the Group" set out in Appendix I to the Circular for details.

	For the year ended 31st March,		**For the six months ended 30th September,**
	2011	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
	(restated)		
	(audited)	(audited)	(unaudited)
Revenue	—	—	—
Gross profit	—	—	—
(Loss) before tax from continuing operating activities	(32,836)	(81,133)	(27,448)
Profit/(loss) for the year from continuing operation	943,824	(101,277)	(39,746)
Profit/(loss) for the year from discontinued operations	(170)	11	—
Profit/(loss) for the year	943,654	(101,266)	(39,746)

	As at 31st March,		**As at 30th September,**
	2011	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
	(restated)		
	(audited)	(audited)	(unaudited)
Cash and cash equivalents	1,257,526	801,019	536,997
Net current assets	1,266,667	749,141	438,139
Net assets	6,458,963	7,502,318	8,153,958
Gearing ratio (defined as non-current liabilities divided by total equity)	139.3%	108.4%	93.1%

(a) For the year ended 31st March, 2012

We noted from the Annual Report 2012 that the construction of the Three Coal Mines was still in progress and the commercial production had not yet been commenced. As such, the Group did not generate any revenue for the years ended 31st March, 2011 and 31st March, 2012.

Loss before tax from continuing operations of the Group increased by approximately 1.47 times from approximately HK$32.8 million for the year ended 31st March, 2011 to approximately HK$81.1 million for the year ended 31st March, 2012. This was mainly attributable to the decrease in other income and gains and the increase in administrative expenses for the year ended 31st March, 2012. Other income and gains decreased by approximately 63.4% to approximately HK$4.3 million for the year ended 31st March, 2012 primarily attributable to gain on disposal of a subsidiary of approximately HK$11.7 million was recorded for the year ended 31st March, 2011, and no such amount was recorded for the year ended 31st March, 2012. Administration expenses increased by approximately 354% to approximately HK$85.2 million for the year ended 31st March, 2012 primarily due to an increase in directors' remunerations, salaries, allowances, provident fund contributions, legal and professional fee, depreciation and amortization and office expenses.

The Group turned from a profit from the continuing operation of approximately HK$943.8 million for the year ended 31st March, 2011 to a loss of approximately HK$101.3 million for the year ended 31st March, 2012 mainly due to the absence of gain on bargain purchase. The gain on bargain purchase of approximately HK$985.0 million for the year ended 31st March, 2011 represented the difference between the fair value of the net identifiable assets acquired and the fair value of the cost of investment in relation to the acquisition of Up Energy Investment (China) Ltd. on 18th January, 2011.

The discontinued operation for the year ended 31st March, 2011 was the business of broadcasting and content production and VCD trading carried by STR Media Limited. According to the Annual Report 2012, the Group disposed its entire 80% interest in STR Media Limited on 16th July, 2010. The business of multi-media products trading of the Group was resolved to be terminated and was classified as discontinued operation for the year ended 31st March, 2012.

(b) For the six months ended 30th September, 2012

We noted from the Interim Report 2012 that the construction of the Three Coal Mines was still in progress and the commercial production had not yet been commenced. As such, the Group did not generate any revenue for the six months ended 30th September, 2012.

Loss before tax from continuing operations of the Group decreased by approximately 48.0% to approximately HK$27.4 million for the six months ended 30th September, 2012 from approximately HK$52.7 million for the corresponding period in 2011 mainly because of the decrease in administrative expenses. Administrative expenses decreased by approximately 45.9% to approximately HK$29.2 million for the six months ended 30th

September, 2012 from approximately HK$54.0 million for the corresponding period in 2011, which primarily due to a decrease in legal and professional fee as a result of the termination of the multi-media product trading business of the Group. The Group's results for the six months ended 30th September, 2012 recorded a loss of approximately HK$39.7 million comparing to a loss of approximately HK$62.1 million for the corresponding period in 2011.

According to the Interim Report 2012, the Group continued to develop its coal business plan in Xinjiang by focusing on the construction of the Three Coal Mines and the development of the downstream phase one ancillary projects in Fukang of Xinjiang. We are advised that it is expected that commercial production of these projects would commence successively starting from the second quarter of 2013. The Group had also started identifying coal mines in Xinjiang and overseas and would enter into acquisition agreement or arrangements as appropriate with the aim of consolidating the leading position in the coking coal industry in Northwestern China.

As advised by the management of the Group, construction of the Three Coal Mines and the downstream ancillary projects have been in line with the schedule published in the Interim Report 2012. However, it was slightly behind schedule as compare to the original schedule published in the Annual Report 2012. As disclosed in the "Letter from the Board", the construction progress of the Group's coal mines were delayed in 2012 due to the strengthening of the management of safe production and safety inspection, especially during the convocation of the 18th National Congress, which increased occasional shutdowns of the coal mines for inspection and shortened the period available for construction.

(c) Liquidity position of the Group

According to the Annual Report 2012 and the Interim Report 2012, working capital of the Group represented by the net current asset was on a decreasing trend mainly due to decrease in cash and cash equivalents, which were approximately HK$1.3 billion, HK$801.0 million and HK$537.0 million, representing approximately 93.5%, 91.4% and 82.3% of the Group's current assets as at 31st March, 2011, 31st March, 2012 and 30th September, 2012 respectively. As advised by the management of the Group, cash and cash equivalents decreased during the year ended 31st March, 2012 mainly because of the drawdowns for funding ongoing construction and procurement for the Three Coal Mines and related facilities; and cash of approximately HK$264 million was drawn to partly fund the addition of property, plant and equipment in relation to the ongoing construction of the Three Coal Mines during the six months period ended 30th September, 2012.

Meanwhile, the Group had relatively less current liabilities, which only amounted to approximately HK$77.7 million, HK$127.1 million and HK$214.2 million as at 31st March, 2011, 31st March, 2012 and 30th September, 2012 respectively. Gearing ratio improved from approximately 139.3% as at 31st March, 2011 to approximately 108.4% as at 31st March, 2012 mainly due to the decrease in liabilities and increase in equity as a result of the conversion of convertible notes issued by the Group for the amount of approximately HK$1.8 billion. Gearing ratio further improved to approximately 93.1% as at 30th September, 2012 mainly due to further conversion of convertible notes issued by the Group for the amount of approximately HK$856 million.

(d) Capital commitments

The management of the Group advised that the Group had total capital commitments of approximately HK$455.9 million in respect of property, plant and equipment as at 31st December, 2012; of which, approximately HK$213.7 million related to the Three Coal Mines, approximately HK$169.2 million related to the coal coking project located next to the Shizhuanggou Coal Mine, approximately HK$72.7 million related to coal washing project located next to Shizhuanggou Coal Mine and approximately HK$0.3 million related to the development of the water recycling project located next to the Shizhuanggou Coal Mine. The management of the Group confirmed that apart from such capital commitment, the Group had no other capital commitment as at 31st December, 2012. As mentioned in the "Letter from the Board", as at the Latest Practicable Date, the total expected capital expenditures of the Group would be approximately HK$922 million with an addition of some annual normal corporate administrative and development expenses estimated at approximately HK$60 million per year. We are advised that apart from the capital commitments of approximately HK$455.9 million as at 31st December, 2012, the remaining of the expected capital expenditures of approximately HK$466.1 million is for further procurement and construction of abovementioned projects to completion.

The Group expected that the coal coking project, the coal washing project and the water recycling project will commence their respective production in the third quarter of 2013. The coal coking project was planned to acquire annual processing capacity of approximately 1.8 Mt. and annual coke production capacity of approximately 1.3 Mt. at full operation. The coal washing project was planned to have an annual coal washing capacity of approximately 4.5 Mt. at full operation, recovery rate of clean coal of 83% and annual production of clean coal of approximately 3.735 Mt. The water recycling project was planned to have an annual processing capacity of approximately 5.2 million m^3 and water for industrial use for the Shizhuanggou Coal Mine, the Quanshuigou Coal Mine, the coal washing project and the coal coking project and irrigation water.

(e) Recent developments

Review on coking coal business in Xinjiang, the PRC

Xinjiang is governed by The Government of Xinjiang Uygur Autonomous Region of China. The Company considers that Xinjiang is relatively independent from other part of China, the coking coal market in Xinjiang may be less influenced by the downward economic trend. We noted from the website of The Government of Xinjiang Uygur Autonomous Region of China (http://www.xinjiang.gov.cn) that fixed assets investment of Xinjiang increased by approximately 35.1% (which was approximately 12.3% exceeded that of the PRC) to approximately RMB410 billion for the first three quarter of 2012 as compared with the corresponding period of 2011. We also noted that the economic growth of Xinjiang outperformed the overall growth of the PRC. The growth of fixed assets investment of Xinjiang for the first three quarter in 2012 ranked second of the PRC. The growth of total production in Xinjiang for the first three quarter in 2012 as compared with the corresponding period of 2011 was 11.5%, which was 3.8% more than the overall growth of the PRC, making it ranked the second of the PRC. The growth of disposable income per capita in town for the first three quarter in 2012 as compared with the corresponding period of 2011 was 14.1%, which was 0.1% exceeded the average growth of the PRC. The growth of disposable income per capita in countryside for the first three quarter in 2012 as compared with the corresponding period of 2011 was 19.5%, which was 4.1% more than the overall growth of the PRC. Major project constructions are important in maintaining economic growth of Xinjiang. We are advised by the management of the Group that the coking coal to be produced by the Group will be mainly for the production of iron and steel, which are commonly used in the infrastructure and property constructions. It was mentioned in the Interim Report 2012 that in the first quarter of 2012, there was no obvious change in the steel and coking coal industries. The average prices of coking coal and coke remained at high levels, namely, RMB900 per tonne and RMB1,700 per tonne respectively. Slowdown in infrastructure and investment since the second quarter led to a decreased demand for steel in Xinjiang, resulting in a decrease in the price of coking coal. The price has fallen by approximately RMB100 per tonne over the first three quarters. In 2012, the standards of safety management for the coal industry in Xinjiang were further raised. During the Twelfth Five-year Plan period, small-scale coal mines were further ordered by the relevant government authorities in the PRC to close down, suspend production, merger with others or shift to different line of production. The production of coking coal in Xinjiang thus decreased, which helped stabilizing the price of coking coal. In September 2012, the average price of different types of coal ranged from approximately RMB450 per tonne to RMB800 per tonne; while the average price of coking coal was about RMB1,400 per tonne.

We have reviewed the website of China Coal Resource (en.sxcoal.com). China Coal Resource is a strategic research and decision-making consultant for China's coal and coke industry with support of a team of experts engaging in global coal, coking, coal chemistry, renewable energy, information technology, finance and investment, logistics and trading. We noted from an article "China coking coal price to tumble next year" dated 8th November, 2012 on the website of China Coal Resource that coking coal prices recently advanced in China driven by increased demand from downstream users and a short-term supply reduction caused by government enforced restrictions over coal mines to create a safe atmosphere ahead of the 18th National Congress. Such recently observed upward momentum of coking coal prices may wane in the weeks after the Congress with coking coal prices falling during December 2012, primarily due to the lack of continued downstream demand.

Outlook

Despite the expected coking coal prices in China after the Congress as mentioned above, according to the Interim Report 2012, it is expected that the coking coal prices in Xinjiang would start to rebound; and we are advised that such rebound would be mainly due to expected increasing demand from new and expanding steel mills in North West China.

We noted from an article "Seminar on Steel Industry held by the Xinjiang Government — Sparing No Effort to Grow Steel Industry Bigger and Stronger" (新疆召開鋼鐵產業座談會 — 全力做大做強鋼鐵產業) dated 4th December, 2012 on the website of the Central People's Government of the People's Republic of China (http://big5.gov.cn) that at present, demand for steel is increasing in view of various infrastructure construction projects and people's livelihood projects carried out by The Government of Xinjiang Uygur Autonomous Region of China and several enterprises have established their operations in Xinjiang. Based on the above, we concur with the Directors' view that this might result in the expansion of the existing steel mills and/or attracting establishments of new steel mills in North West China to cater for the increasing demand of steel and the demand for and price of coking coal for production of steel might increase accordingly.

In addition, we also noted from an article "Mongolia Stopped Exports to China — Coking Coal Price Set on the Rise" (蒙古停止對華煤炭出口 — 焦煤漲價在即) dated 18th January, 2013 on the website of Xinjiang Information Net (新疆價格信息網) (www.xjpi.gov.cn) that due to financial difficulties, a stated-owned coking coal enterprise in Mongolia, which supplied the largest amount of coking coal to China and owned the world's largest coking coal mine, has stopped its supply of coal to China since 11th January, 2013, which might also lead to the increase in coking coal prices. Such information extracted from the article of the abovementioned website does not give further details on the reason for the financial difficulties faced by such producer; and provides no hint on any implication on the business of the Group. Nevertheless financial difficulties faced by one single producer might not mean that there were any material adverse factors in the coking coal industry which may also affect the survival of smaller producers in the industry.

CUL Acquisition

On 1st November, 2012, the Company announced that the Group entered into a sale and purchase agreement on 12th October, 2012 to acquire the entire issued share capital of the Champ Universe Limited ("**CUL**") and all amount owing by CUL to the vendor at completion of the acquisition (the "**CUL Acquisition**"). CUL indirectly owned 100% interest in the mining rights over No. 3 Pit of No. 1 Mine which is located at Baicheng County, Arkesu Prefecture, Xinjiang Uygur Autonomous Region, the PRC (the "**Baicheng Mine**"). The total consideration for the CUL Acquisition was HK$1.58 billion, subject to adjustment as set out in the sale and purchase agreement in relation to the CUL Acquisition; of which, HK$735 million would be settled by way of issue and allotment of 367,500,000 ordinary

Shares of the Company at an issue price of HK$2.00 per Share and the balance of HK$845 million would be settled by cash. The Company may, utilize its internal resources, raise bank loans or third party financing or equity issue including but not limited to rights issue, open offer, placing or combination of any of the above to finance the CUL Acquisition.

As at the Latest Practicable Date, completion of the CUL Acquisition is pending subject to the fulfillment of the conditions precedent under the sale and purchase agreement. Please refer to the announcement of the Company dated 1st November, 2012 for details of the CUL Acquisition and its payment terms.

WGDL Acquisition

As mentioned in the announcement (the ''**WGDL Acquisition Announcement**'') of the Company dated 8th January, 2013, the Group entered into the sale and purchase agreement on 19th December, 2012 to buy the entire issued share capital in West Glory Development Limited (''**WGDL**'') and its subsidiaries (the ''**WGDL Group**'') and all amounts of loans and indebtedness owned to the vendor (the ''**WGDL Acquisition**''). The WGDL Group is principally engaged in coal and anthracite mining and exploration in the Republic of Tajikistan. The WGDL Group holds 52% of the charted fund of Limited Liability Company ''Kamarob'' which holds a mining license over a mine with the exclusive mining rights and interests in Tajikistan which has significant coal resources, especially anthracite. The total consideration for the WGDL Acquisition was HK$394,648,800; of which, (i) HK$98,662,200 will be settled as deposit in cash, (ii) HK$197,324,400 will be settled by issue and allotment of consideration shares and where applicable, subject to adjustments by payment of cash; and (iii) the balance of HK$98,662,200 (subject to increment or reduction) will be settled by way of cash upon completion.

As at the Latest Practicable Date, completion of the WGDL Acquisition is pending subject to fulfillment of the conditions precedent under the sale and purchase agreement. The management of the Group advised that completion of the WGDL Acquisition would take place in the third quarter of 2013 or later, which is expected to be after the completion of the Rights Issue. Please refer to the WGDL Acquisition Announcement for details of the WGDL Acquisition and its payment terms.

2. Reasons for the Rights Issue and use of proceeds

(a) Use of proceeds

The estimated net proceeds of the Rights Issue will be approximately HK$415.8 million. As set out in the Letter from the Board, the Company plans to apply all net proceeds from the Rights Issue primarily for capital expenditures of the Three Coal Mines projects and construction costs for three downstream ancillary industrial projects, being the coal coking project, the coal washing project and the water recycling project (together with the Three Coal Mines projects, the ''**Existing Projects**''), which include civil construction of underground mines and ground-level plants and procurement of coal washing, blending and coking equipment and facilities. Approximately HK$86.7 million will be applied to Xiaohuangshan Mine, HK$182.4 million will be applied to the Shizhuanggou Mine and Quanshuigou Mine, HK$104.0 million will be applied to the coal coking project, HK$32.8 million will be applied to coal washing project and HK$9.9 million will be applied to water recycling project. The remainder, if any, will be used for general corporate use.

In view of (i) the Three Coal Mines projects are currently under construction and the Three Coal Mines are expected to commence commercial production successively starting from the second quarter of 2013 to generate revenue to the Group; (ii) the coal coking project, the coal washing project and the water recycling project are expected to commence their respective production in the third quarter of 2013; (iii) the total capital commitment for the Existing Projects was approximately HK$455.9 million as at 31st December, 2012 and the total expected capital expenditure is approximately HK$922 million as at the Latest Practicable Date; (iv) the existing available cash and bank balance was approximately HK$600 million as at 31 December 2012 indicating that the Group's liquid cash may be tight for financing its existing capital commitments and further capital expenditures for the Existing Projects; and (v) the Directors believe that the Rights Issue would be the most appropriate method of fund raising as opposed to other alternative means of financing (please refer to paragraph below for details), we consider that it is fair and reasonable and in the interest of the Company and the Shareholders a whole to raise funds through the Rights Issue and apply the net proceeds of the Rights Issue to primarily finance its capital expenditures or construction costs of the Existing Projects, including the Three Coal Mines.

(b) Other financing alternatives

As mentioned in the "Letter from the Board", the Company has considered alternative means of financing, including other forms of equity financing and debt financing. Debt financing and bank borrowing will incur additional finance costs and increase the gearing ratio of the Group, while the Rights Issue provides a relatively cost effective way to finance the Group without increasing the gearing ratio and causing immediate dilution to the shareholding interests of the existing Shareholders if the shareholders participate in the Rights Issue. Placing of new shares, unlike a rights issue which offers an opportunity for the existing Shareholders to participate in the enlargement of the capital base of the Company, will result in immediate dilution to the shareholding interests of the existing Shareholders. As such, the Directors do not consider a share placement as a desirable alterative to the Rights Issue. An open offer does not have nil-paid rights while a rights issue allows the Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue in full to have the opportunity to realize the value of their nil-paid rights shares by trading them in the market. The Company has also considered that the proposed Rights Issue, combined with the potential conversion of the existing CNs issued by the Group, may substantially enhance the capital base of the Group and lower its gearing level.

Having considered various financing alternatives available to the Group, the Directors believe the Rights Issue to be the most appropriate method of fund raising and in the best interest of the Company and the Shareholders, as opposed to other alternative means of financing.

We concur with the Directors that rights issue is a fair and reasonable fund raising method for the Company. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

Having taken into consideration of the above, we are of the view that it is reasonable for the Company to maintain a strong capital base and obtain funding for its business developments through the Rights Issue. Accordingly, we concur with the Directors' view that the Rights Issue is in the interest of the Company and Shareholders as a whole.

3. Principal terms of the Rights Issue and the Underwriting Agreement

The Company proposes to raise approximately HK$424.0 million, before expenses, by way of the Rights Issue on the basis of 1 Rights Share for every 2 existing Shares held at 5:00 p.m. on the Record Date. The Rights Issue is only available to the Qualifying Shareholders.

3.1 Subscription Price

The Subscription Price for the Rights Shares is HK$0.50 per Rights Share payable in cash and in full by a Qualifying Shareholder upon his/her/its acceptance of the provisional allotment of the Rights Shares under the Rights Issue or, where applicable, his/her/its application for excess Rights Shares or when a renounce of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

(i) a discount of approximately 54.5% to the closing price of HK$1.10 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 52.7% to the average of the closing prices per Share as quoted on the Stock Exchange for the last five previous consecutive full trading days upto and including the Last Trading Day of approximately HK$1.058;

(iii) a discount of approximately 49.3% to the average of the closing prices per Share as quoted on the Stock Exchange for the last ten previous consecutive full trading days up to and including the Last Trading Day of approximately HK$0.987;

(iv) a discount of approximately 44.4% to the theoretical ex-rights price of approximately HK$0.90 per Share based on the closing price of HK$1.10 per Share as quoted on the Stock Exchange on the Last Trading Day;

(v) a discount of approximately 88.0% to the audited consolidated net asset value attributable to the Shareholders as at 31st March, 2012 of approximately HK$4.2 per Share; and

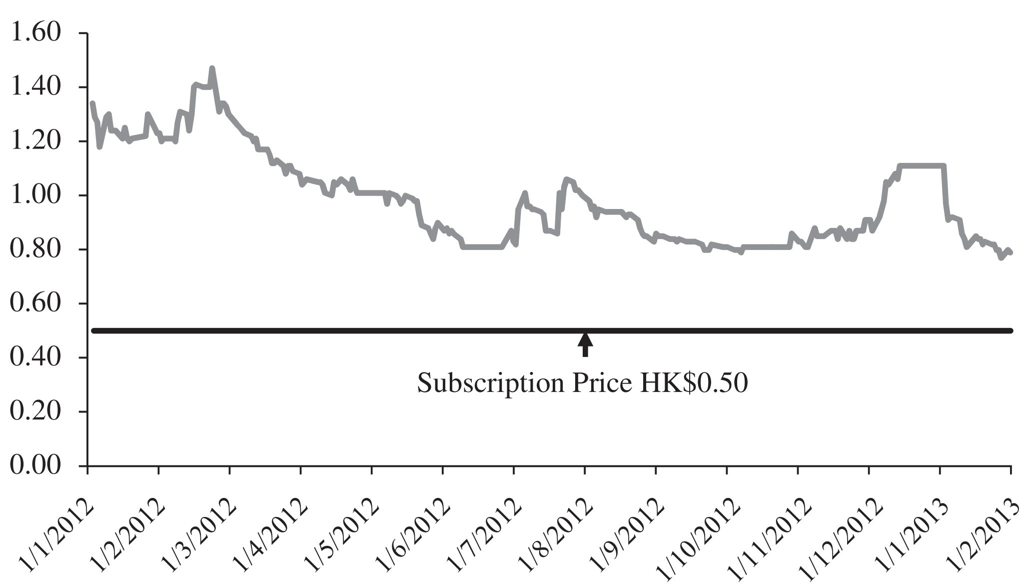
(vi) a discount of approximately 35.9% to the closing price per Share of HK$0.78 as quoted on the Stock Exchange on the Latest Practicable Date.

As set out in the Letter from the Board, the Subscription Price was determined by the Directors with reference to the market price of the Shares prior to and including the Last Trading Day and the last traded price of the Shares on the Stock Exchange prior to the suspension of trading. The Board (excluding those Directors who are members of the Independent Board Committee) consider the terms of the Rights Issue, including the Subscription Price (and the discounts to the relative values as indicated above), to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole.

3.1.1 Historical closing prices

Set out below is the movements in the closing price of the Shares during the period from 1st January, 2012, being the 12 months period prior to the date of the Underwriting Agreement, up to and including the Latest Practicable Date (the "**Review Period**"):

The daily closing price during the Review Period (HK$)



Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1 Trading in shares was suspended from 15th October, 2012 to 1st November, 2012, both days inclusive.

2 Trading in shares was suspended from 9:00 a.m. 20th December, 2012 to 1:00 p.m. on 8th January, 2013.

During the Review Period, the lowest and highest closing prices of the Shares were HK$0.76 per Share and HK$1.46 per Share recorded on 1st February, 2013 and 24th February, 2012 respectively as quoted on the Stock Exchange. The average daily closing price of the Shares is HK$0.98 per Share. The Subscription Price represents (i) a discount of approximately 65.8% from the highest closing price; (ii) a discount of approximately 48.9% from the average daily closing price; and (iii) a discount of approximately 34.2% from the lowest closing price during the Review Period.

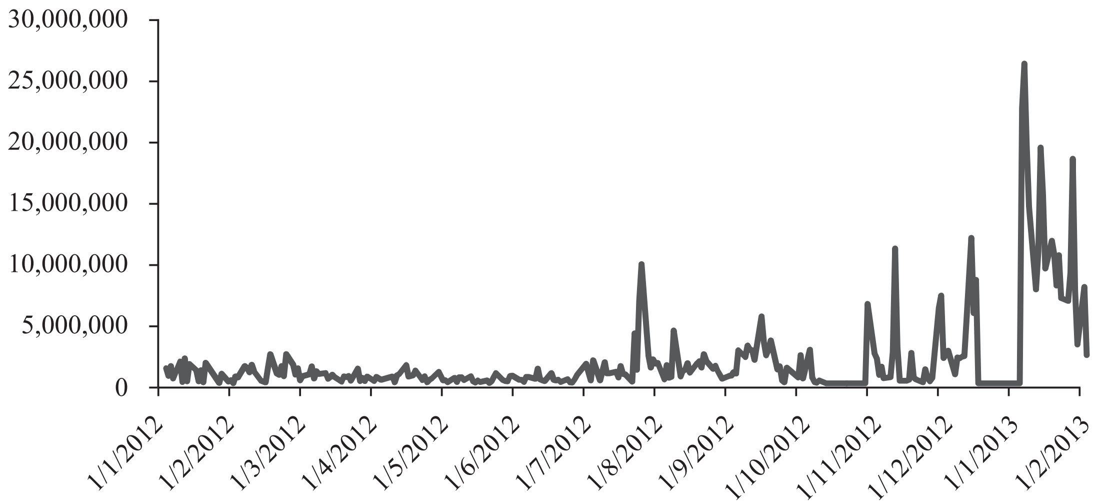
The closing price of the Shares fluctuated on a downward trend prior to the Company's announcement on 5th July, 2012 that it entered into a memorandum of understanding for the proposed WGDL Acquisition. On 23rd July, 2012, the Company announced that the Group entered into a memorandum of understanding for the proposed CUL Acquisition. The closing price of the Shares experienced a mild upward trend following the respective announcements but it returned to a gradual downward trend since early August 2012 and hit the relatively low closing price of HK$0.78 in October 2012. On 12th October, 2012, the Company announced that the Group entered into an agreement for the CUL Acquisition. The closing price of the Shares picked up on an increasing trend and closed at HK$1.10 per Share before the suspension of trading of Shares on 20th December, 2012. The closing price of the Shares was on a decreasing trend again from January 2013 and up to the Latest Practicable Date.

We note that it is a common market practice that, in order to enhance the attractiveness of a rights issue and to encourage the existing shareholders to participate in the rights issue, the subscription price of a rights issue normally represents a discount to the prevailing market prices of the relevant shares. Having considered that save for the impacts due to the corporate actions of the Company mentioned above, the closing price of the Shares was in general on a decreasing trend, we concur with the Directors that the Subscription Prices being set at a discount to the prevailing market prices of the Shares is in line with the general practice and is acceptable.

3.1.2 Historical trading volume

Set out below is the daily trading volume of the Shares during the Review Period:

The daily trading volume of the Shares during the Review Period



The average daily trading volume of the Shares per month, and the respective percentages of the average daily trading volume as compared to the total number of issued Shares at the beginning of each calendar month during the Review Period are tabulated as follows:

	Average daily trading volume *Number of Shares*	**Number of issued Shares at the beginning of each month** *Number of Shares*	**Percentage of the average daily trading volume to total number of issued Shares at the beginning of the month** *Approximate %*
2012			
January	807,067	1,080,724,741	0.075
February	972,390	1,080,894,741	0.090
March	569,066	1,092,094,741	0.052
April	552,761	1,154,859,788	0.048
May	296,416	1,582,859,788	0.019
June	372,971	1,582,859,788	0.024
July	1,842,676	1,582,859,788	0.116
August	1,347,600	1,582,859,788	0.085
September	1,978,051	1,582,859,788	0.125
October *(note 1)*	842,430	1,582,859,788	0.053
November	1,739,749	1,582,859,788	0.110
December *(note 2)*	4,280,552	1,582,859,788	0.270
2013			
January *(note 3)*	12,969,541	1,582,859,788	0.819
February *(note 4)*	4,436,000	1,697,791,255	0.261

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Trading in shares was suspended from 15th October, 2012 to 1st November, 2012, both days inclusive.

2. Trading in shares was suspended from 9:00 a.m. on 20th December, 2012 to 1:00 p.m. on 8th January, 2013.

3. Number of issued Shares increased to 1,697,791,255 subsequent to the issue of 114,931,467 conversion shares on 4th January, 2013.

4. Up to the Latest Practicable Date.

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Review Period, with ranges from 0.019% to 0.819% of the total number of issued Shares at the beginning of each month. Apart from July, September and November in 2012, months in which announcements in relation to the memorandums of understanding had been released; and December 2012, January and February in 2013, we noted that trading in the Shares had been historically inactive and the Shares were hence rather illiquid. We are advised that the Company did not aware the reasons for the relatively high trading volume in December 2012, January and February in 2013.

We noted that there was relatively high trading volume of the Shares following the release of the announcements in relation to the memorandums of understanding in relation to the WGDL Acquisition and the CUL Acquisition on 5th July, 2012 and 23rd July, 2012 respectively and the release of the annual report for the year ended 31st March, 2012 on 25th July, 2012. On 14th September, 2012, the Company announced the extension of the validity period of the memorandum of understanding in relation to the proposed CUL Acquisition to 5th October, 2012; and trading volume of the Shares was relatively high in the subsequent few trading days. Trading of Shares was also relatively active after the resumption of trading on 2nd November, 2012 subsequent to the release of the announcement in relation to the CUL Acquisition. Nevertheless, average daily trading volume of the Shares per month was around or below 0.1% of the total number of issued Shares at the beginning of the month in most of the Review Period. Since the Shares were generally illiquid in the open market, we concur with the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares.

Given that discount on the Subscription Price could attract the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group, we consider that the Subscription Price being set as lower than the prevailing market prices of the Shares is in line with general market practice and the current market trend, which we consider such arrangement is reasonable and acceptable.

3.1.3 Comparison with other rights issue and open offer transactions

In order to assess the reasonableness of the Subscription Price, we have reviewed all rights issues/open offers conducted by other companies listed on the Stock Exchange, which announced the respective rights issue/open offer in the six months preceding the date of the Underwriting Agreement, i.e. from 6th July, 2012 and up to the Latest Practicable Date. In view of the size of the market capitalization of the Company was approximately HK$1.3 billion as at the Latest Practicable Date, we have identified 8 listed companies (the "**Comparables**"), which represent all companies listed on the Stock Exchange, announced rights issue/open offer within the aforesaid period, and had market capitalization between HK$500 million and HK$3.0 billion as at the date of their respective announcements for the rights issue/open offer. We consider the range of market capitalization between HK$500 million to HK$3.0 billion for selecting the Comparables to be fair and reasonable on the basis that the market capitalization of the Company was approximately HK$1.3 billion as at the Latest Practicable Date. We also consider the selection of such six months period to be sufficient and appropriate for our analysis for fund raising exercises such as rights issues/open offers, as the market sentiment at the relevant time in general plays an important role in the determination of the subscription price, while reasonable number of such fund raising exercises could be included for reference purposes. As far as we are aware, there was no rights issue/open offer conducted by companies of similar principal business during period from 6th July, 2012 and up to the Latest Practicable Date.

Announcement date	Stock code	Name of company	Basis	Subscription price (HK$)	Closing price per share as quoted on the Stock Exchange on the last trading day of the rights issue/open offer conducted (HK$)	Premium/(discount) to the closing price per share as quoted on the Stock Exchange on the last trading day of the rights issue/open offer conducted	Theoretical ex-rights price (HK$)	Premium/(discount) to theoretical ex-rights price	Maximum dilution	Underwriting commission	Market capitalisation as at the date of the respective announcement for the rights issue/open offer (HK$)	Estimated net proceeds (HK$ million)	Open offer ("OO")/rights issue ("RI")	Principle activities
2013.01.15	0757	SOLARGIGA ENERGY HOLDINGS LIMITED	1 for 5	0.510	0.580	-12.07%	0.568	-10.21%	16.67%	1.00%	1,444,954,274	250.00	OO	Manufacturing and sales of monocrystalline and multicrystalline silicon solar ingots and wafers; processing of silicon solar ingots and wafers; manufacturing and sales of photovoltaic cells and modules; and design and installation of photovoltaic systems
2012.12.12	2882	HONGKONG RESOURCES HOLDINGS COMPANY LIMITED	2 for 5	0.150	0.300	-50.00%	0.257	-41.63%	28.57%	1.70%	590,725,809	115.29	RI	Retailing and franchising operations for selling gold and jewellery products in Hong Kong, Macau and other regions in the PRC
2012.11.27	0104	ASIA COMMERCIAL HOLDINGS LIMITED	3 for 1	0.200	1.600	-87.50%	0.550	-63.64%	75.00%	2.00%	546,746,576	200.80	RI	Trading and retailing of watches and property leasing
2012.11.02	0757	SOLARGIGA ENERGY HOLDINGS LIMITED	1 for 9	0.375	0.450	-16.67%	0.443	-15.35%	10.00%	1.50%	1,008,976,691	89.20	OO	Manufacturing and sales of monocrystalline and multicrystalline silicon solar ingots and wafers; processing of silicon solar ingots and wafers; manufacturing and sales of photovoltaic cells and modules; and design and installation of photovoltaic systems
2012.10.26	1198	ROYALE FURNITURE HOLDINGS LIMITED	1 for 2	0.510	0.830	-38.55%	0.723	-29.46%	33.33%	2.50%	642,628,616	191.00	OO	Design, manufacture and sale of a wide range of home furniture
2012.10.05	2000	SIM TECHNOLOGY GROUP LIMITED	1 for 2	0.200	0.450	-55.56%	0.367	-45.50%	33.33%	2.00%	767,249,550	165.00	RI	Development and manufacturing of mobile handsets, wireless communications modules and display modules
2012.09.27	0530	GOLDIN FINANCIAL HOLDINGS LIMITED	11 for 10	1.070	0.780	37.18%	0.932	14.81%	52.38%	2.50%	2,590,637,026	3,841.71	RI	Factoring business, financial investments and related activities, wine business and property development and investment
2012.09.21	3813	POU SHENG INTERNATIONAL (HOLDINGS) LIMITED	1 for 4	0.491	0.475	3.37%	0.478	2.72%	20.00%	0.00%	2,023,511,952	518.80	RI	Retailing of sportswear products and footwear products and commissions from leasing of large scale commercial spaces to retailers and distributors for concessionaire sales, distribution of licensed sportswear products and footwear products and manufacturing and sales of OEM footwear products
		Maximum	—	—	—	37.18%	—	14.81%	75.00%	2.50%	2,590,637,026	3,842	—	—
		Minimum	—	—	—	-87.50%	—	-63.64%	10.00%	0.00%	546,746,576	89	—	—
		Average	—	—	—	N.A.	—	N.A.	33.66%	1.65%	1,201,928,812	671	—	—
		Median	—	—	—	-27.61%	—	-22.41%	30.95%	1.85%	888,113,121	196	—	—
	0307	**UP ENERGY DEVELOPMENT GROUP LIMITED**	**1 for 2**	**0.500**	**1.100**	**-54.55%**	**0.900**	**-44.44%**	**33.33%**	**2.00%**	**1,741,145,767**	**415.80**	**RI**	**Mining, washing and marketing of coking coal in the PRC**

Source: website of the Stock Exchange (www.hkex.com.hk)

Note 1: Maximum dilution effect of each right issue/open offer is calculated as (number of rights Shares/offer Shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the rights shares/offer shares under the basis of entitlement + number of rights shares/offer shares), e.g. for open offer with basis of 1 right share for every existing 2 shares held, the maximum dilution effect is calculated as 1/(1 + 2) = 33.3%.

Note 2: The theoretical ex-entitlement price is calculated by adding the market value of all the issued shares (based on the closing price of the shares on the last trading day) with the gross amount of subscription proceeds expected to be received from the rights issue/open offer (before expenses), and then divided by the total number of issued shares as enlarged by the rights issue/open offer; e.g. in the case of every 1 rights share for every 2 existing shares, (2 × closing price on the last trading day) + 1 × (the subscription price)/(2 + 1).

As shown in the above table, the Comparables had subscription prices at a premium/discount to their respective closing price per share on the last trading day prior to the release of the relevant announcement within a range from a discount of approximately 87.5% to a premium of approximately 37.2%, with a median of approximately 27.6%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 54.5% to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day, which falls within the range of the Comparables and below the median of the Comparables. With regard to the discount/premium to the theoretical ex-entitlement price per share of the Comparables, they ranged from a discount of approximately 63.6% to a premium of approximately 14.8%, with a median discount of approximately 22.4%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 44.4% to the theoretical ex-entitlement price per Share, which also falls within the range of the Comparables and below the median of the Comparables.

Despite the respective range of the Comparables are wide, having taken into account that (i) in general, it is common for the listed issuers in Hong Kong to issue rights issue/open offer at a discount to the market price in order to enhance the attractiveness of a rights issue/open offer transaction; (ii) the discounts represented by the Subscription Price do not exceed the range of the Comparables; (iii) the interest of the Qualifying Shareholders will not be prejudiced by the relatively deep discount of the Subscription Price so long as they are offered with an equal opportunity to participate in the Rights Issue, we consider the discounts of the Subscription Price to the Last Trading Day and theoretical ex-entitlement price which is within the respective range of the Comparables are fair and reasonable.

The Subscription Price was determined by the Directors with reference to the market price of the Shares prior to and including the Last Trading Day and the last traded price of the Shares on the Stock Exchange prior to the suspension of trading. Having considered that (i) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day and the discount represented by the Subscription Price to the theoretical ex-entitlement prices fall within the respective range of the Comparables; (ii) save for the impacts from the recent corporate actions as mentioned under the section headed "Historical closing prices" above, the closing price of the Shares was in general on a decreasing trend; (iii) trading volume of the Shares was thin with average daily trading volume of the Shares per month around or below 0.1% of the total number of issued Shares at the beginning of the month in most of the Review Period; (iv) it is common for the listed companies in Hong Kong to price a rights issue/open offer at a discount to the market price in order to enhance the attractiveness of subscription rights issue/open offer; (v) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares; and (vi) excess application is available for Qualifying Shareholders who would like to participate more in the future growth of the Group in a discounted Subscription Price, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

3.2 Underwriting commission

Pursuant to the Underwriting Agreement, the Company will pay the Underwriter an underwriting commission of 2% of the aggregate Subscription Price of the total Underwritten Shares (other than an aggregate of 236,783,474 Rights Shares to be provisionally allotted to the Underwriter). As mentioned in the Letter from the Board, the underwriting commission was determined after arm's length negotiations between the Company and the Underwriter and the respective Boards (excluding those Directors who are members of the Independent Board Committee) and the Underwriter (including, in the case of the Underwriter, its non-executive directors and independent non-executive directors) consider that the underwriting commission is fair and reasonable and is on normal commercial terms.

Based on our review of the underwriting arrangements of the Comparables set out in the table under section 3.1.3 above, we noted that the rates of underwriting commissions paid by listed companies under the Comparables ranged from nil to 2.50% with an average of 1.65%. In view of the rate of underwriting commission for the Rights Issue is within the range and close to the average of that of the Comparables, we consider that the underwriting commission of 2% in the present case to be in line with market practice and are fair and reasonable so far as the Independent Shareholders are concerned.

3.3 Application for excess Rights Shares

As stated in the Letter from the Board, Qualifying Shareholders (other than the Underwriter) shall be entitled to apply for (a) any unsold Rights Shares which would have been allotted to the Non-Qualifying Shareholders had they been the Qualifying Shareholders; (b) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise subscribed for by renouncees or transferees of nil-paid Rights Shares; and (c) any unsold Rights Shares created by aggregating fractions of the Rights Shares.

The Board will, upon consultation with the Underwriter, allocate the excess Rights Shares being applied for at its discretion and on a fair and equitable basis on the following principles:

(i) subject to the availability of excess Rights Shares, preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings where it appears to the Directors that such applications are not made with the intention to abuse such mechanism; and

(ii) subject to the availability of excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to the Qualifying Shareholders (other than the Underwriter) based on a sliding scale with reference to the number of the excess Rights Shares applied for by them (i.e. the Qualifying Shareholders applying for a smaller number of Rights Shares will be allocated a higher percentage of the excess Rights Shares they have applied for; whereas the Qualifying Shareholders applying for a larger number of Rights Shares will be allocated a lower percentage of the excess Rights Shares they have applied for (although they will receive a greater number of Rights Shares than those applying for a smaller number).

We are advised by the management of the Company that the trading cost of odd-lot is relatively higher than the whole-lot and the aforesaid principle (i) for rounding up odd-lot holdings to whole-lot holdings and is based on the proportion to the excess Rights Shares applied to them and thus such principle is fair and reasonable. We concur with the Directors that the allocation arrangement in respect of excess Rights Shares based on the above principles is fair and equitable as it is likely for a larger number of potential and qualifying applicants for excess Rights Shares to have the opportunity to be successfully allocated with any excess Rights Shares. Moreover, the Qualifying Shareholders are given the first rights to subscribe for any Rights Shares not taken up before the Underwriter. We also note that the allocation arrangement in respect of excess Rights Shares is the same as the relevant arrangements of many of the Comparables set out in the table under section 4.1.3 above and thus such arrangement is in line with the normal market practice.

4. Possible financial effects of the Rights Issue

4.1 Adjusted net tangible assets

Based on the information set out in the "Unaudited pro forma financial information of the Group" contained in Appendix II to the Circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group ("**Pro Forma NTA**") would amount to approximately HK$5.9 billion as a result of the completion of the Rights Issue and receipt of an estimated net proceeds from the Rights Issue of approximately HK$415.8 million.

Assuming completion of the Rights Issue, the Pro Forma NTA per Share would be approximately HK$2.33 (based on the enlarged issued share capital of 2,546,686,882 Shares upon completion of the Rights Issue assuming none of the CNs are converted into Shares), representing a decrease of approximately 33.0% from the unaudited consolidated net tangible asset per Shares of approximately HK$3.48 as at 30th September, 2012. Such decrease is due to the fact that the Subscription Price is fixed at a discount to the net tangible asset per Share prior to the completion of the Rights Issue.

Shareholders should take note of the assumptions made in the preparation of the unaudited pro forma financial information of the Group contained in Appendix II to the Circular, in particular, the pro forma financial information does not take into account any trading result or other transactions of the Group subsequent to 30th September, 2012.

4.2 Cash position

According to the Interim Report 2012, the Group had cash and cash equivalents of approximately HK$537.0 million 30th September, 2012. As advised by the Directors, the decrease of the cash and cash equivalents of the Group as at 30th September, 2012 from approximately HK$801.0 million as at 31st March, 2012 was mainly due to drawdown of cash of approximately HK$264 million to partly fund the addition of property, plant and equipment in relation to the ongoing construction of the Three Coal Mines. Upon the completion of the Rights Issue, the cash and cash equivalents of the Group will increase as a result of the net proceeds of approximately HK$415.8 million. The Rights Issue will provide additional liquidity in the form of equity to the Group and therefore, will enhance its financial position. We consider that it is in the interests of the Company and the Shareholders as a whole.

4.3 Gearing ratio

According to the Interim Report 2012, the outstanding debt component of convertible notes and the equity component of convertible notes are approximately HK$4.2 billion and HK$1.4 billion respectively. The Group's gearing ratio (defined as non-current liabilities divided by total equity) was approximately 93.1% as at 30th September, 2012. The expected net proceeds from the Rights Issue of approximately HK$415.8 million will enhance the cash position and enlarged capital base and total equity of the Group upon completion of the Rights Issue, and therefore the Group's gearing ratio is expected to be improved as a result of the enlarged total equity of the Group.

Despite the consolidated net tangible assets per Share would decrease as a result of the Rights Issue, in light of the expected enhancement on the cash position and the gearing ratio of the Group as a result of the Rights Issue and the proceeds from the Rights Issue will primarily finance capital expenditures or construction costs of the Existing Projects. The Three Coal Mine projects are currently under construction and the Three Coal Mines are expected to commence commercial production successively starting from the second quarter of 2013 to generate revenue to the Group; and the coal coking project, the coal washing project and the water recycling project are expected to commence their respective production in the third quarter of 2013, we are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

5. Potential dilution effect of the Rights Issue on the shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their proportional shareholding interests in the Company will remain unchanged after the Rights Issue. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Rights Issue will have their shareholdings in the Company diluted by up to a maximum of approximately 33.3% (assuming none of the CNs are converted into Shares). The possible dilution effect of the Rights Issue on shareholding interests is set out in the section headed "Effect of the Rights Issue on the shareholding structure of the Company" in the Letter from the Board. As in all other rights issues/open offers, the dilution on the shareholding of non-qualifying shareholders and those qualifying shareholders who do not take up in full their assured entitlement under the Rights Issue is inevitable. The dilution magnitude of any rights issue/open offers depends mainly on the extent of the basis of entitlement under such exercise, where the higher the offering ratio of rights shares/offer shares to existing shares is, the greater the dilution on the existing shareholding would be. The possible maximum dilution for rights issues/open offers at the ratio of 1 for 2 is 33.3%.

After taking into account that the Rights Issue would enhance the Group's financial position and strengthen its capital base for financing capital expenditures or construction costs of the Existing Projects. The Three Coal Mines projects are under construction and the Three Coal Mines are expected to commence commercial production successively starting from the second quarter of 2013 to generate revenue to the Group; and the coal coking project, the coal washing project and the water recycling project are expected to commence their respective production in the third quarter of 2013, we consider that such potential dilution to the shareholding interests of the Shareholders, which may only happen to the Qualifying Shareholders who decide not to accept their assured entitlements in full, as a result of the Rights Issue is acceptable. The Qualifying Shareholders are in fact given the opportunity to trade the nil-paid Rights Shares if they decided not to take up their entitlements in whole or in part.

6. Whitewash Waiver

Assuming none of the CNs are converted into Shares and assuming that no Qualifying Shareholders other than the Underwriter take up their provisional entitlements of the Rights Shares, the shareholding in the Company held by the Underwriter and parties acting in concert with it may be increased, pursuant to the Underwriting Agreement, from its current 473,566,949 Shares, representing approximately 27.89% of the issued Shares, to (i) 1,322,462,576 Shares (assuming none of the CNs are converted into Shares and assuming that no Rights Shares are taken up by the Qualifying Shareholders other than the Underwriter), representing approximately 51.93% of the issued Shares as enlarged by the Rights Issue; or (ii) 2,921,081,865 Shares (assuming all of the CNs are converted in full and assuming that no Rights Shares are taken up by the Qualifying Shareholders other than the Underwriter), representing approximately 58.31% of the issued Shares as enlarged by the Rights Issue. Accordingly, the Underwriting Agreement may potentially increase the shareholdings of the Underwriter in the Company to 30% or more within the provisions of Rule 26.1 of the Takeovers Code and result in potential change in control of the Company, in which case a mandatory offer obligation will arise on the part of the Underwriter and the parties acting in concert with it to make an offer to acquire all the Shares not otherwise owned, controlled or agreed to be acquired by them. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations of the Underwriter and the parties acting in concert with it to make such a mandatory general offer. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll.

The Executive has agreed that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders by way of poll at the SGM in which Shareholders who are involved in, or interested in, the Rights Issue and/or the Whitewash Waiver (including the Underwriter and parties acting in concert with it) will abstain from voting. As set out in the Letter from the Board, if the Whitewash Waiver is not granted by the Executive or if the conditions imposed thereon are not fulfilled, the Underwriter may waive the Whitewash Waiver condition to the Underwriting Agreement and may proceed with a mandatory general offer as required by Rule 26.1 of the Takeovers Code.

As set out in the "Letter from the Board" in the Circular, it is the intention of the Underwriter that the Group will continue its current business and its employment of the employees of the Group, and the Rights Issue provides an opportunity of the Group to obtain long-term capital to strengthen its capital base. The Underwriter has no intention to make any major changes to the business or employment of employees of the Group, to change the existing members of the Board, to redeploy the fixed assets of the Group, or to inject any new business to the Group. The Underwriter also does not have any intention or negotiation (concluded or otherwise) on any disposal/termination/scaling down of the current business.

Based on our analysis of the financial performance, recent development and industry of the Group, terms of the Rights Issue, reasons for and the use of proceeds of the Rights Issue as set out above, we consider that the Rights Issue is in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable. Given that (i) the financial position and equity base of the Group will be strengthened as a result of the Rights Issue; (ii) the net proceeds from the Rights Issue will be applied to primarily finance capital expenditures or construction costs of the Existing Projects. The Three Coal Mines projects are currently under construction and are expected to commence commercial production successively starting from the second quarter of 2013 to generate revenue to the Group; and the coal coking project, the coal washing project and the water recycling project are expected to commence their respective production in the third quarter of 2013; (iii) all Qualifying Shareholders will have equal opportunity to take up the Rights Shares in accordance with their provisional entitlements under the Rights Issue and their respective interests in the Company will not be diluted if they elect to take up their provisional allotments under the Rights Issue in full; and (iv) the terms and conditions of the Underwriting Agreement including the Subscription Price have been agreed between the Company and the Underwriter after arm's length negotiations and are on normal commercial terms with reference to similar transactions, we consider that, for the purposes of facilitating the Rights Issue without triggering a mandatory general offer as required by Rule 26.1 of the Takeovers Code, the approval of the Whitewash Waiver by the Independent Shareholders is in the interests of the Company and the Shareholders as a whole.

We wish to highlight that if the Whitewash Waiver is granted, the Underwriter and parties acting in concert with it may hold more than 50% of the then issued share capital of the Company upon completion of the Rights Issue. In this case, going forward, the Underwriter and parties acting in concert with it will be free to acquire further voting rights in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

RECOMMENDATION

Having considered that the above principal factors and reasons, in particular:

(i) the Group has not commenced business and will not generate any revenue until the Existing Projects commence commercial production. It is expected that the Three Coal Mines will commence commercial production successively starting from the second quarter of 2013 to generate revenue to the Group; and three downstream ancillary industrial projects being the coal coking project, the coal washing project and the water recycling project will commence their respective production in the third quarter of 2013;

(ii) the total capital commitment for the Existing Projects was approximately HK$455.9 million as at 31st December, 2012. Up to the Latest Practicable Date, the Group requires additional funds of approximately HK$466.1 million for further procurement and construction for the Existing Projects to completion and commence commercial production;

(iii) despite the Existing Projects have yet to commence respective productions and they may not run in full capacity for some time after commencement of their commercial productions starting successively from the second quarter of 2013, net proceeds from the Rights Issue is required for the Group to finance the capital expenditure of the Existing Projects to completion in order to commence generating revenue to the Group. Given (a) the imminent need of the Group for liquid cash after taken into account its existing available cash and bank balance of approximately HK$600 million as at 31 December 2012 and the total expected capital expenditures for the Existing Projects of approximately HK$922 million, as at the Latest Practicable Date; (b) the Existing Projects will only generate revenue to the Group after commencement of productions. The net proceeds from the Rights Issue of approximately HK$415.8 million will be able to finance a large portion of the capital expenditure for preparing the commencement of productions of the Existing Projects. As advised by the management of the Group, the remaining balance of the capital commitments for the Existing Projects will be financed by internal resources of the Group; and (c) the Subscription Price is fair and reasonable as mentioned in (v) below, the Directors consider that the Rights Issue is attractive and is fair and reasonable;

(iv) having considered various financing alternatives available to the Group, the Directors believe the Rights Issue to be the most appropriate method of fund raising and in the best interest of the Company and the Shareholders, as opposed to other alternative means of financing. Despite the Rights Issue will cause potential dilution to the shareholding interests of the Shareholders if the Qualifying Shareholders decide not to accept their assured entitlements in full, it (a) provides a relatively cost effective way to finance the Group without increasing the gearing ratio; (b) offers an opportunity for the existing Shareholders to participate in the enlargement of the capital base of the Company; and (c) allows the Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue in full to have the opportunity to realize the value of their nil-paid rights shares by trading them in the market;

(v) the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned after taken into account (a) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day and the discount represented by the Subscription Price to the theoretical ex-entitlement prices fall within the respective range of the Comparables; (b) the historical closing price of the Shares was in general on a decreasing trend and the historical trading volume of the Shares was thin. Since the Shares were generally illiquid in the open market and the closing price of the Shares was in general on a decreasing trend, we concur with the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares and the Rights Issue allows the Qualifying Shareholders to continuously participate in the future development of the Group at the Subscription Price, which is the price discounted from the closing price of the Shares on the Last Trading Day; (c) it is common for the listed companies in Hong Kong to price a rights issue/open offer at a discount to the market price in order to enhance the attractiveness of subscription rights issue/open offer; (d) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares; and (e) excess application is available for Qualifying Shareholders who would like to participate more in the future growth of the Group in a discounted Subscription Price;

(vi) upon the completion of the Rights Issue, the Pro Forma NTA per Share is expected to decrease due to the fact that the Subscription Price is fixed at a discount to the net tangible asset per Share prior to the completion of the Rights Issue. However, the cash and cash equivalents of the Group will increase as a result of the net proceeds of approximately HK$415.8 million. The Rights Issue will provide additional liquidity in the form of equity to the Group and therefore, will enhance its financial position and enlarged capital base and total equity of the Group upon completion of the Rights Issue, and therefore the Group's gearing ratio is expected to be improved as a result of the enlarged total equity of the Group. Having considered (i) to (v) above and the improvement of liquidity position and strengthened equity base of the Group upon completion of the Rights Issue, we are the view that the Rights Issue is fair and reasonable; and

(vii) potential dilution to the shareholding interests of the Shareholders, which may only happen to the Qualifying Shareholders who decide not to accept their assured entitlements in full, as a result of the Rights Issue is acceptable after taking into account that the Rights Issue would improve the Group's financial position and strengthen its capital base for financing capital expenditures or construction costs of the Existing Projects, which will generate revenue to the Group after commencement of commercial production,

we consider that the terms of Rights Issue and the Whitewash Waiver which is to facilitate the implementation of the Rights Issue, the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders, and we ourselves advise the Independent Shareholders, to vote in favour of the resolution relating to the Whitewash Waiver at the SGM.

Yours faithfully,
For and on behalf of
VC Capital Limited

Philip Chau
Managing Director

Susanna Ho
Director

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for each of the six months ended 30th September 2011 and 2012 and the three years ended 31st March 2010, 2011 and 2012, as extracted from the relevant interim and annual reports of the Company.

The Company's auditor for the year ended 31st March 2010, Messrs. Ting Ho Kwan and Chan, did not issue any qualified opinion on the Group's financial statements.

The Company's auditor for the two years ended 31st March 2011 and 2012, Ernst and Young, did not issue any qualified opinion on the Group's financial statements.

	For the six months ended 30 September		For the year ended 31 March		
	2012	**2011**	**2012**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited) (restated)	(audited)	(audited) (restated)	(audited) (restated)
RESULTS					
Revenue	—	—	—	—	74,750
(Loss)/profit before tax from continuing operation	(39,105)	(62,316)	(97,701)	943,740	8,595
Income tax (expense)/credit	(641)	168	(3,576)	84	(1,185)
(Loss)/profit from continuing operation	(39,746)	(62,148)	(101,277)	943,824	7,410
Profit/(loss) from discontinued operation	—	31	11	(170)	163
(Loss)/profit for the period/year	(39,746)	(62,117)	(101,266)	943,654	7,573
(Loss)/profit attributable to:					
Owners of the Company	(34,159)	(58,131)	(91,357)	944,656	7,573
Non-controlling interests	(5,587)	(3,986)	(9,909)	(1,002)	—
	(39,746)	(62,117)	(101,266)	943,654	7,573
(Loss)/earnings per share attributable to owners of the Company					
Basic					
— For (loss)/profit for the period/year	(2.24 cents)	(7.48 cents)	(9.83 cents)	1,365.79 cents	0.76 cents
— For (loss)/profit from continuing operation	(2.24 cents)	(7.49 cents)	(9.83 cents)	1,366.03 cents	0.74 cents
Diluted					
— For (loss)/profit for the period/year	(2.24 cents)	(7.48 cents)	(9.83 cents)	107.34 cents	0.76 cents
— For (loss)/profit from continuing operation	(2.24 cents)	(7.49 cents)	(9.83 cents)	107.36 cents	0.74 cents

Note:

There is no exceptional item because of size, nature or incidence for each of the six months ended 30th September 2011 and 2012 and the three years ended 31st March 2010, 2011 and 2012.

The Directors did not recommend the payment of dividends in respect of each of the years ended 31st March 2010, 2011 and 2012 and each of the six months period ended 30th September 2011 and 2012.

The figures for the year ended 31st March 2011 and as at 31st March 2011 were restated in the published Company's annual report on 25th July 2012.

The figures for the year ended 31st March 2010 and as at 31st March 2010 were restated in the published Company's annual report on 20 June 2011.

	As at 30 September		**As at 31 March**	
	2012	**2012**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited) (restated)	(audited)
ASSETS AND LIABILITIES				
Non-current assets	15,309,477	14,882,902	14,187,153	773
Current assets	652,366	876,221	1,344,377	58,643
Total assets	15,961,843	15,759,123	15,531,530	59,416
Current liabilities	214,227	127,080	77,710	19,353
Total assets less current liabilities	15,747,616	15,632,043	15,453,820	40,063
Non-current liabilities	7,593,658	8,129,725	8,994,857	—
Net assets	8,153,958	7,502,318	6,458,963	40,063
Non-controlling interests	2,647,801	2,653,318	2,658,810	—

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 MARCH 2011 AND 2012

Set out below are the audited financial statements of the Group for the two years ended 31 March 2011 and 2012 which are published in the Company's annual report published on 25 July 2012.

Consolidated Income Statement
Year ended 31 March 2012

	Notes	**2012** *HK$'000*	**2011** *HK$'000* (Restated)
CONTINUING OPERATION			
REVENUE	*5*	—	—
Cost of sales		—	—
Gross profit		—	—
Other income and gains	*5*	4,305	11,750
Selling and distribution expenses		—	(529)
Administrative expenses		(85,168)	(18,767)
Other expenses		(270)	(25,262)
Share of loss of a jointly-controlled entity		—	(28)
LOSS BEFORE TAX FROM CONTINUING OPERATING ACTIVITIES		(81,133)	(32,836)
Gain on bargain purchase	*28*	—	985,024
Finance costs	*7*	(16,568)	(8,448)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATION		(97,701)	943,740
Income tax expense	*10*	(3,576)	84

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATION		(101,277)	943,824
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	12	11	(170)
(LOSS)/PROFIT FOR THE YEAR		(101,266)	943,654
Attributable to:			
Owners of the Company		(91,357)	944,656
Non-controlling interests		(9,909)	(1,002)
		(101,266)	943,654
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic			
— For (loss)/profit for the year		(9.83 cents)	1,365.79 cents
— For (loss)/profit from continuing operation		(9.83 cents)	1,366.03 cents
Diluted			
— For (loss)/profit for the year		(9.83 cents)	107.34 cents
— For (loss)/profit from continuing operation		(9.83 cents)	107.36 cents

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income
Year ended 31 March 2012

	Notes	**2012** *HK$'000*	**2011** *HK$'000*
(LOSS)/PROFIT FOR THE YEAR		(101,266)	943,654
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		18,922	5,079
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		18,922	5,079
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(82,344)	948,733
Attributable to:			
Owners of the Company		(76,852)	948,544
Non-controlling interests		(5,492)	189
		(82,344)	948,733

Consolidated Statement of Financial Position
31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	14,803,369	14,108,835
Prepaid land lease payments	16	68,579	68,411
Restricted bank deposits	20(a)	10,954	9,907
Total non-current assets		14,882,902	14,187,153
CURRENT ASSETS			
Inventories	18	5,680	14,272
Prepayments, deposits and other receivables	19	61,545	46,693
Restricted bank deposits	20(a)	7,977	25,886
Cash and cash equivalents	20	801,019	1,257,526
Total current assets		876,221	1,344,377
CURRENT LIABILITIES			
Bills payable	21	7,977	22,052
Other payables and accruals	22	118,114	55,658
Tax payable		989	—
Total current liabilities		127,080	77,710
NET CURRENT ASSETS		749,141	1,266,667
TOTAL ASSETS LESS CURRENT LIABILITIES		15,632,043	15,453,820
NON-CURRENT LIABILITIES			
Convertible notes	23	4,698,926	5,566,664
Deferred tax liabilities	24	3,430,799	3,428,193
Total non-current liabilities		8,129,725	8,994,857
NET ASSETS		7,502,318	6,458,963
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	230,972	61,184
Equity component of convertible notes	23	1,665,493	2,299,100
Reserves	27(a)	2,952,535	1,439,869
		4,849,000	3,800,153
Non-controlling interests		2,653,318	2,658,810
TOTAL EQUITY		7,502,318	6,458,963

Consolidated Statement of Changes in Equity

Year ended 31 March 2012

	Attributable to owners of the Company									
	Issued capital	Share premium account	Contributed surplus	Exchange reserve	Capital reserve	Equity component of convertible notes	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2011	61,184	497,819*	84,798*	3,888*	3,490*	2,299,100	849,874*	3,800,153	2,658,810	6,458,963
Loss for the year	—	—	—	—	—	—	(91,357)	(91,357)	(9,909)	(101,266)
Other comprehensive income for the year										
Exchange differences on translation of foreign operations	—	—	—	14,505	—	—	—	14,505	4,417	18,922
Total comprehensive loss for the year	—	—	—	14,505	—	—	(91,357)	(76,852)	(5,492)	(82,344)
Conversion of convertible notes *(note 23 and note 25)*	177,569	1,643,882	—	—	—	(633,607)	—	1,187,844	—	1,187,844
Shares repurchased *(note 25)*	(7,781)	(54,364)	—	—	—	—	—	(62,145)	—	(62,145)
At 31 March 2012	230,972	2,087,337*	84,798*	18,393*	3,490*	1,665,493	758,517*	4,849,000	2,653,318	7,502,318

	Attributable to owners of the Company										
	Issued capital	Share premium account	Contributed surplus	Exchange reserve	Capital reserve	Share option reserve	Equity component of convertible notes	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2010	10,009	37,161	84,798	(651)	3,490	38	—	(94,782)	40,063	—	40,063
Profit for the year	—	—	—	—	—	—	—	944,656	944,656	(1,002)	943,654
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	—	—	—	3,888	—	—	—	—	3,888	1,191	5,079
Total comprehensive income for the year	—	—	—	3,888	—	—	—	944,656	948,544	189	948,733
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	2,645,167	2,645,167
Disposal of subsidiaries	—	—	—	651	—	—	—	—	651	—	651
Exercise of share options	6	132	—	—	—	(38)	—	—	100	—	100
Issue of convertible notes	—	—	—	—	—	—	2,299,100	—	2,299,100	—	2,299,100
Conversion of convertible notes *(note 23 and note 25)*	51,169	460,526	—	—	—	—	—	—	511,695	—	511,695
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	13,454	13,454
At 31 March 2011	61,184	497,819*	84,798*	3,888*	3,490	—	2,299,100	849,894*	3,800,153	2,658,810	6,458,963

* These reserve accounts comprise the consolidated reserves of HK$2,952,535,000 (2011: HK$1,439,869,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows
Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from operating activities			
(Loss)/profit before tax:			
From continuing operation		(97,701)	943,740
From discontinued operations	12	11	(170)
Adjustments for:			
Finance costs	7	16,568	8,448
Interest income	6	(3,646)	(302)
Share of loss of a jointly-controlled entity		—	28
Dividend income	5	—	(30)
Net realised and unrealised loss on trading securities	5	—	1,590
Gain on disposal of items of property, plant and equipment	5	—	(1,252)
Gain on bargain purchase	28	—	(985,024)
Gain on disposal of subsidiaries	5	—	(11,731)
Depreciation of property, plant and equipment	6	9,348	874
Amortisation of prepaid land lease payments	6	2,111	455
Transaction costs of the acquisition	28	—	16,901
Cash flows before working capital changes		(73,309)	(26,473)
Decrease in prepayments, deposits and other receivables		16	3,246
Decrease/(increase) in inventories		8,592	(14,249)
Decrease in trade and bills receivables		—	15,137
Increase in other payables and accruals		10,160	4,758
Cash used in operations		(54,541)	(17,581)
Net cash flows used in operating activities		(54,541)	(17,581)

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from investing activities			
Interest received		3,646	302
Disposal of subsidiaries		—	56
Acquisition of a subsidiary	28	—	735,177
Purchase of items of property, plant and equipment		(362,332)	(21,745)
Proceeds from sale of trading securities		—	14,976
Additions of prepaid land lease payments	16	(1,406)	—
Dividend received		—	30
Decrease/(increase) in pledged bank deposits		16,862	(9,813)
Exercise of share options		—	100
Net cash flows (used in)/from investing activities		(343,230)	719,083
Cash flows from financing activities			
Proceeds from issue of convertible notes		—	520,000
Capital contribution by non-controlling shareholders		—	13,454
Payments of share repurchase		(62,145)	—
Net cash flows (used in)/from financing activities		(62,145)	533,454
Net (decrease)/increase in cash and cash equivalents		(459,916)	1,234,956
Cash and cash equivalents at beginning of financial year		1,257,526	22,420
Effect of foreign exchange rate changes, net		3,409	150
Cash and cash equivalents at end of financial year	20	801,019	1,257,526

Statement of Financial Position
31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	7,800,000	7,800,000
Total non-current assets		7,800,000	7,800,000
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	759	685
Amounts due from subsidiaries	17	52,979	17,654
Cash and cash equivalents	20	607,232	510,942
Total current assets		660,970	529,281
CURRENT LIABILITIES			
Amounts due to subsidiaries	17	209,898	—
Other payables and accruals	22	7,947	9,851
Total current liabilities		217,845	9,851
NET CURRENT ASSETS		443,125	519,430
TOTAL ASSETS LESS CURRENT LIABILITIES		8,243,125	8,319,430
NON-CURRENT LIABILITIES			
Convertible notes	23	4,698,926	5,566,664
Total non-current liabilities		4,698,926	5,566,664
NET ASSETS		3,544,199	2,752,766
EQUITY			
Issued capital	25	230,972	61,184
Equity component of convertible notes	23	1,665,493	2,299,100
Reserves	27(b)	1,647,734	392,482
TOTAL EQUITY		3,544,199	2,752,766

Notes to Financial Statements
31 March 2012

1. CORPORATE INFORMATION

Up Energy Development Group Limited (the "**Company**", formerly known as Tidetime Sun (Group) Limited) was incorporated as an exempted company with limited liability in Bermuda on 30 October 1992 under the Companies Act 1981 of Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the principal place of business of the Company in Hong Kong is Room 2704, 27/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

During the year, the Company and its subsidiaries (the "**Group**") were involved in the following principal activities:

- Trading of multi-media products
- Development and construction of coal mining and coke processing facilities

On 31 March 2012, the business of multi-media products trading was discontinued as the sole director of Goldmax Trading Limited, a subsidiary of the Company, resolved to terminate the said business, and the Group now only has one continuing segment.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

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

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendment to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

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

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

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 April 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The Group expects to adopt HKFRS 10, and the consequential amendments to HKAS 27 from 1 April 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 April 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 April 2013.

HK(IFRIC)-Int 20 address the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 Inventories. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 April 2013.

The Group has already commenced an assessment of the impact of these new or revised standards, amendments to standards and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the financial statements. The Group is not yet in a position to ascertain their impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill 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 the income statement 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 the income statement in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

 or

(b) the party is an entity where any of the following conditions applies:

 (i) the entity and the Group are members of the same group;

 (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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 Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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 the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Plant and machinery	4.75% to 31.67%
Motor vehicles	18% to 19%
Office furniture and fixtures	18% to 31.67%
Equipment and others	19% to 31.67%
Vessel	20%

Depreciation of mine properties is calculated using the units of production ("**UOP**") method to depreciate the cost of the assets proportionately to the extraction of the proved and probable mineral reserves.

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

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

Construction in progress represents items of property, plant and equipment under construction, which are stated at cost less any impairment losses, and are 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 rights and assets

Exploration rights are stated at cost less accumulated amortisation and any impairment losses and exploration assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and deferred amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration rights are amortised over the term of rights. Equipment used in exploration is depreciated over its useful life, or, if dedicated to a particular exploration project, over the life of the project on the straight-line basis, whichever is shorter. Amortisation and depreciation is included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained that an exploration property is capable of commercial production.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated income statement as incurred, unless the directors of the Company conclude that a future economic benefit is more likely to be realised than not. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to mine properties and amortised using the UOP method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off to the consolidated income statement if the exploration property is abandoned.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and cash equivalents, deposits and other receivables and restricted bank deposits.

Subsequent measurement

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

Loans and receivables

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. 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 and all collateral has been realised or has been transferred to the Group.

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 in the consolidated income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include bills payable, other payables and accruals, tax payable and convertible notes.

Subsequent measurement

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

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the consolidated income statement.

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 the consolidated income statement.

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

General provision

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

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

Rehabilitation provision

The 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, 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 costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. 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 profit or loss as a 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.

The Group assesses its rehabilitation provision annually, and numerous factors that will affect the ultimate liability payable are considered in determining the provision. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, and changes in discount rates. Changes to estimated future costs are recognised in the 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 HKAS 16 Property, Plant and Equipment).

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

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

Revenue recognition

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

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

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

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

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

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

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

Other employee benefits

Pension schemes

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute at least 20% of their payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging from 6.4% to 6.7% (2011: 6.7%) has been applied to the expenditure on the individual assets.

Discontinued operations

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

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

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

Comparative information for prior periods is represented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented. The classification of discontinued operations in the current year had no impact on the comparative statement of financial position.

The classification, measurement and presentation requirements above are also applied to non-current assets that are held for distribution, or distributed to shareholders acting in their capacity as shareholders.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the 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.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of 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.

Judgements

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

Impairment provision of receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability 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 Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment of non-financial assets

The 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.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Production start date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and is reclassified from "Construction in progress" to "Mine properties". Some of the criteria will include, but are not limited, to the following:

- The level of capital expenditure compared to the construction cost estimates
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce coals in saleable form (within specifications)
- Ability to sustain ongoing production of coals

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventories or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

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 described below.

Useful lives and residual values of items of property, plant and equipment, other than mine properties

In determining the useful lives and residual values of items of property, plant and equipment (other than mine properties), the 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 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 the end of each reporting period, based on changes in circumstances.

Coal reserve and resource estimates

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

Mine rehabilitation provision

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 rate, and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the reporting date presents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the 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. 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.

If the changes in estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the rehabilitation asset, the Group is required to consider whether it is an indication of impairment of the asset as a whole and test for impairment in accordance with HKAS 36. For closed mining sites, changes to estimated costs are recognised immediately in profit or loss. Also, rehabilitation obligations that arose as a result of the production phase of a mine, should be expensed as incurred.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. During the year, the Group had two business segments as follows:

(a) Trading of multi-media products; and

(b) Development and construction of coal mines and coke processing facilities ("**coal mining**").

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

Segment assets exclude restricted bank deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude convertible notes, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

On 31 March 2012, the business of multi-media products trading was discontinued as the sole director of Goldmax Trading Limited, a subsidiary of the Company, resolved to terminate the said business, and the Group now only has one continuing segment which is coal mining. Therefore, for the year ended 31 March 2012, there is no presentation of operating segment information. In addition, segment information on the discontinued operations has been disclosed in note 12.

Furthermore, for the year ended 31 March 2012, the coal mines and coke processing facilities are still in construction and as the majority of the Group's non-current assets is located in the Xinjiang Uygur Autonomous Region, the People's Republic of China ("**Mainland China**" or the "**PRC**"), no geographical information and information about major customers are presented.

5. REVENUE, OTHER INCOME AND GAINS

The Group has no revenue or turnover from continuing operation as at 31 March 2012. The revenue from the discontinued multi-media products trading operation during the year represents the invoiced value of goods sold, after allowances for returns and trade discounts.

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

	Group 2012 HK$'000	2011 HK$'000 (Restated)
Revenue	—	—
Other income		
Bank interest income	3,645	301
Dividend income	—	30
Sundry income	595	—
Others	65	26
	4,305	357
Gains		
Gain on disposal of items of property, plant and equipment	—	1,252
Gain on disposal of subsidiaries	—	11,731
Loss on trading securities	—	(1,590)
	—	11,393
Total other income and gains	4,305	11,750

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Depreciation of items of property, plant and equipment		9,348	874
Amortisation of prepaid land lease payments	*16*	2,111	455
Total depreciation and amortisation		11,459	1,329
Gain on disposal of items of property, plant and equipment, net		—	(1,252)
Gain on bargain purchase	*28*	—	(985,024)
Gain on disposal of subsidiaries		—	(11,731)
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages, salaries and other employees' benefits		7,488	1,811
Pension scheme contributions — defined contribution scheme		492	150
		7,980	1,961
Auditors' remuneration:			
Audit services		2,743	2,240
Acquisition related services		447	1,435
		3,190	3,675
Minimum lease payments under operating leases:			
Property rentals		2,290	673
Foreign exchange differences, net	*7*	(2,691)	(732)
Bank interest income	*5*	(3,645)	(301)

7. FINANCE COSTS

An analysis of finance costs from continuing operation is as follows:

	Group 2012	2011
	HK$'000	*HK$'000* (Restated)
Foreign exchange gain	(2,691)	(732)
Amortised interest of convertible notes *(note 23)*	320,106	77,459
Less: Interest capitalised	(300,847)	(68,279)
	19,259	9,180
	16,568	8,448

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2012	2011
	HK$'000	*HK$'000*
Fees	452	363
Other emoluments:		
Salaries, allowances and benefits in kind	6,207	1,740
Pension scheme contributions	53	38
	6,260	1,778
	6,712	2,141

(a) Independent non-executive Directors

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

	Group 2012	2011
	HK$'000	*HK$'000*
Mr. Lau Kwok Kuen (resigned on 20 June 2011)	26	120
Mr. Lui Sai Wah (resigned on 22 February 2011)	—	108
Mr. Wong Siu Kang (resigned on 20 May 2011)	16	120
Mr. Li Bao Guo (appointed on 22 February 2011)	147	15
Mr. Lien Jown Jing, Vincent (appointed on 1 April 2011)	135	—
Dr. Shen Shiao-Ming (appointed on 20 May 2011)	128	—
	452	363

There were no other emoluments payable to the independent non-executive Directors during the year (2011: Nil).

(b) Executive Directors and a non-executive Director

2012	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*
Mr. Chau Shing Yim, David	363	12	375
Mr. Qin Jun	5,403	14	5,417
Mr. Jiang Hongwen	441	27	468
	6,207	53	6,260
2011			
Mr. Chen Ping (resigned on 10 March 2011)	339	11	350
Mr. Pu Fuzhong (resigned on 14 February 2011)	122	—	122
Ms. Ma Jian Ying (resigned on 10 March 2011)	226	11	237
Mr. Chau Shing Yim, David (re-designated to non-executive director on 20 June 2011)	372	12	384
Mr. Qin Jun (appointed on 19 January 2011)	626	1	627
Mr. Jiang Hongwen (appointed on 22 February 2011)	55	3	58
	1,740	38	1,778

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: three) Directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2011: two) non-director, highest paid employees for the year are as follows:

	Group	
	2012	**2011**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,095	937
Pension scheme contributions	21	24
	1,116	961

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

	2012	**2011**
	Number of employees	*Number of employees*
Nil to HK$1,000,000	2	2

10. INCOME TAX

	Group 2012 *HK$'000*	2011 *HK$'000* (Restated)
Income tax:		
Current tax — Hong Kong		
Charge for the year	—	—
Current tax — Mainland China	970	—
Deferred tax *(note 24)*	2,606	(84)
Total income tax charge/(credit) for the year	3,576	(84)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory income tax rate of 25% in Mainland China (where the main operating entities of the Group are domiciled) to the tax expense at the effective tax rates are as follows:

Group

	2012 *HK$'000*	%
Loss before tax from continuing operation	(97,701)	
Tax at the statutory tax rate	(24,426)	25
Income not subject to tax	(867)	1
Expenses not deductible for tax	19,111	(20)
Tax effect of unused tax losses not recognised	10,289	(11)
Effect of withholding tax on the interest income from PRC's subsidiaries	963	(1)
Effect of different taxation rates used in other tax jurisdictions	(1,494)	2
Tax charge at the Group's effective rate	3,576	(4)

	2011 *HK$'000* (Restated)	%
Profit before tax from continuing operation	943,740	
Tax at the statutory tax rate	235,935	25
Income not subject to tax	(251,385)	(26.6)
Expenses not deductible for tax	13,541	1.4
Tax effect of unused tax losses not recognised	1,729	0.2
Effect of different taxation rates used in other tax jurisdictions	96	—
Tax credit at the Group's effective rate	(84)	—

11. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated (loss)/profit attributable to owners of the Company for the year ended 31 March 2012 includes a loss of HK$334,266,000 (2011: HK$97,864,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. DISCONTINUED OPERATIONS

Broadcasting and content production and VCD trading

The Group disposed of its entire 80% interest in a subsidiary, STR Media Limited ("**STR**"), on 16 July 2010. The principal asset of STR is a 60% equity interest in a subsidiary, Shanghai New Culture TV and Radio Making Company Limited which is engaged in the business of broadcasting and content production and VCD trading. The total consideration for the disposal of STR together with the shareholder's loan due to Group by STR assigned to the acquirer amounted to HK$300,000. Upon completion of the disposal, the Group discontinued the business of broadcasting and content production and related services in the PRC. For the year ended 31 March 2011, STR was classified as a discontinued operation.

Multi-media products trading

On 31 March 2012, the sole director of Goldmax Trading Limited, a subsidiary of the Company, resolved that the business of multi-media products trading be terminated with immediate effect. Accordingly, for the year ended 31 March 2012, the multi-media products trading business was classified as a discontinued operation.

The results of discontinued operations are presented below:

	Multi-media products trading		Broadcasting and content production and VCD trading		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Revenue	5,078	26,077	—	44	5,078	26,121
Other income	1	1	—	12	1	13
Expenses	(5,068)	(26,138)	—	(166)	(5,068)	(26,304)
Profit/(loss) before tax from discontinued operations	11	(60)	—	(110)	11	(170)
Income tax	—	—	—	—	—	—
Profit/(loss) for the year from discontinued operations	11	(60)	—	(110)	11	(170)

13. DIVIDENDS

The directors do not recommend the payment of dividends in respect of the year ended 31 March 2012 (2011: Nil).

14. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 929,414,200 (2011: 69,165,716) in issue during the year, as adjusted to reflect (1) the conversion of the Tranche A, B and C convertible notes; (2) the share repurchase; and (3) the share consolidation in proportion of 20 to 1 on 12 May 2011.

The calculation of diluted (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	Notes	**2012** *HK$'000*	**2011** *HK$'000* (Restated)
(Loss)/earnings			
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation			
From continuing operation		(91,368)	944,826
From discontinued operations	*12*	11	(170)
		(91,357)	944,656
Interest on convertible notes	*7*	19,259	—
(Loss)/profit attributable to ordinary equity holders of the Company before interest on convertible notes		(72,098)	944,656
Attributable to:			
Continuing operation		(72,109)	944,826
Discontinued operations		11	(170)
		(72,098)	944,656

Shares		**Number of shares 2012**	**2011**
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	*(1)*	929,414,200	69,165,716
Effect of dilution — weighted average number of ordinary shares: Convertible notes	*(1)*	3,255,080,985	810,892,311
		4,184,495,185	880,058,027
(Loss)/earnings per share			
Basic			
— For (loss)/profit for the year		(9.83 cents)	1,365.79 cents
— For (loss)/profit from continuing operation		(9.83 cents)	1,366.03 cents
Diluted	*(2)*		
— For (loss)/profit for the year		(9.83 cents)	107.34 cents
— For (loss)/profit from continuing operation		(9.83 cents)	107.36 cents

(1) Adjustment has been made to the share numbers presented for the years ended 31 March 2011 in respect of the share consolidation on 12 May 2011 (note 25).

(2) Because the potential ordinary shares arising from the conversion of convertible notes had an anti-dilutive effect on the basic loss per share for the year ended 31 March 2012, hence they were ignored in the calculation of diluted loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Office furniture and fixtures *HK$'000*	Equipment and others *HK$'000*	Mine properties *HK$'000*	Construction in progress *HK$'000*	Vessel *HK$'000*	Total *HK$'000*
At 1 April 2011								
Cost	10,337	7,533	833	1,725	13,780,143	309,197	—	14,109,768
Accumulated depreciation	(262)	(472)	(16)	(183)	—	—	—	(933)
Net carrying amount	10,075	7,061	817	1,542	13,780,143	309,197	—	14,108,835
At 1 April 2011, net of accumulated depreciation	10,075	7,061	817	1,542	13,780,143	309,197	—	14,108,835
Additions	18,840	3,482	140	3,072	—	632,715	32,238	690,487
Depreciation provided during the year	(1,510)	(2,685)	(148)	(1,116)	—	—	(5,211)	(10,670)
Exchange realignment	394	276	—	60	4,566	9,421	—	14,717
At 31 March 2012, net of accumulated depreciation	27,799	8,134	809	3,558	13,784,709	951,333	27,027	14,803,369
At 31 March 2012:								
Cost	29,612	11,426	973	4,893	13,784,709	951,333	32,238	14,815,184
Accumulated depreciation	(1,813)	(3,292)	(164)	(1,335)	—	—	(5,211)	(11,815)
Net carrying amount	27,799	8,134	809	3,558	13,784,709*	951,333	27,027	14,803,369

* Mine properties mainly represented costs to obtain the rights for the mining of coal reserves in Shizhuanggou coal mine, Quanshuigou coal mine and Xiaohuangshan coal mine located in Fukang City, the Xinjiang Uygur Autonomous Region, the PRC. No depreciation had been provided as all mines had not yet commenced production.

Group

	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Office furniture and fixtures *HK$'000*	Equipment and others *HK$'000*	Mine properties *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
At 1 April 2010							
Cost	3,787	—	5	—	—	—	3,792
Accumulated depreciation	(3,079)	—	(1)	—	—	—	(3,080)
Net carrying amount	708	—	4	—	—	—	712
At 1 April 2010, net of accumulated depreciation	708	—	4	—	—	—	712
Acquisition of a subsidiary	10,125	5,543	—	1,568	13,778,964	215,367	14,011,567
Additions	107	2,346	828	140	—	91,631	95,052
Depreciation provided during the year	(272)	(534)	(15)	(183)	—	—	(1,004)
Disposals	(697)	(351)	—	—	—	—	(1,048)
Exchange realignment	104	57	—	17	1,179	2,199	3,556
At 31 March 2011, net of accumulated depreciation	10,075	7,061	817	1,542	13,780,143	309,197	14,108,835
At 31 March 2011:							
Cost	10,337	7,533	833	1,725	13,780,143	309,197	14,109,768
Accumulated depreciation	(262)	(472)	(16)	(183)	—	—	(933)
Net carrying amount	10,075	7,061	817	1,542	13,780,143	309,197	14,108,835

16. PREPAID LAND LEASE PAYMENTS

Group

	Notes	2012 *HK$'000*	2011 *HK$'000*
Carrying amount at beginning of year		70,529	—
Additions	*(a)*	1,406	—
Acquisition of a subsidiary	*(b)*	—	70,769
Amortisation for the year		(2,111)	(455)
Exchange realignment		814	215
Carrying amount at end of year		70,638	70,529
Current portion included in prepayments, deposits and other receivables		(2,059)	(2,118)
Non-current portion		68,579	68,411

Notes:

(a) During the year, Up Energy (Xinjiang) Mining Co., Ltd. acquired a usage right of two pieces of land amounting to HK$1,406,000 from the PRC government with lease terms of 50 years. The land use right certificates will expire in June and July 2061 respectively.

(b) On 18 January 2011, the Group acquired 100% issued shares of Up Energy Investment (China) Ltd.. The fair value of the prepaid land lease of Up Energy Investment (China) Ltd. as at the date of acquisition was HK$70,769,000, which represented the value of the land use rights of three pieces of land leased from the PRC government with lease terms of 50 years. The land use right certificates will expire in June 2060, June 2060 and January 2061 respectively.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	**2011**
	HK$'000	*HK$'000*
Unlisted shares, at cost	7,800,000	7,800,000

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$52,979,000 (2011: HK$17,654,000) and HK$209,898,000 (2011: Nil), respectively, are unsecured, interest-free and have no fixed terms of repayment.

Name of Subsidiaries	Place and date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company Direct	Principal activities
Up Energy Investment (China) Ltd. ("**UE China**")	BVI 31 October 2003	US$50,000	100.00%	Investment holding
Up Energy (Xinjiang) Mining Co., Ltd. ("**UE Xinjiang**", 優派能源(新疆)礦業有限公司)	PRC 2 November 2005	US$30,000,000	70.00%	Coal mining, manufacture and sale of coke and clean coke
Up Energy (Hong Kong) Limited ("**UE HK**")	Hong Kong 29 December 2009	HK$10,000	100.00%	Investment holding
Up Energy International Ltd. ("**UE International**")	BVI 22 January 2010	US$50,000	100.00%	Investment holding
Up Energy (Fukang) Coal Mining Ltd. ("**UE Coal Mining**")	PRC 4 February 2010	US$15,000,000	90.00%	Mine construction
Up Energy (Fukang) Coking Ltd. ("**UE Coking**")	PRC 4 February 2010	US$11,500,000	70.00%	Manufacture and sale of coke and clean coke
Up Energy (Fukang) Coal Washing Ltd. ("**UE Coal Washing**")	PRC 4 February 2010	US$5,000,000	70.00%	Coal washing
Up Energy (Fukang) Recycled Water Project Ltd. ("**UE Water**")	PRC 4 February 2010	US$3,200,000	70.00%	Water recycling

Name of Subsidiaries	Place and date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company Direct	Principal activities
Up Energy Development (HK) Limited	Hong Kong 4 November 2010	HK$1	100.00%	Investment holding
Up Energy Management Limited (formerly known as "Sun Arts Ltd.")	Hong Kong 2 November 1993	HK$2	100.00%	Provision of corporate services to related companies
Goldmax Trading Limited	Hong Kong 19 February 2009	HK$1	100.00%	Multi-media products and component trading
Up Energy Development Group (BVI) Co., Ltd. (formerly known as Silver Brilliant International Limited)	BVI 5 January 2011	US$1	100.00%	Investment holding

The Company has entered into a share charge in connection with the issue of the convertible notes (see note 23) of the Company. Pursuant to the share charge, the charge is created over (i) the entire issued share capital of UE China, (ii) the entire issued share capital of UE International; and (iii) the entire issued share capital of UE HK. All of these companies are wholly-owned subsidiaries of the Company. Save as above, the Group did not have any charges on assets as at 31 March 2012.

18. INVENTORIES

	Group	
	2012	**2011**
	HK$'000	*HK$'000*
Raw materials and spare parts	5,680	14,272

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	**2011**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Advance to suppliers	36,188	38,378	—	—
Deposits	1,082	913	501	381
Advance to employees	414	148	—	—
Valued-added tax	22,874	5,723	—	—
Others	987	1,531	258	304
	61,545	46,693	759	685

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS

		Group		Company	
		2012	**2011**	**2012**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances		819,950	1,293,319	607,232	510,942
Less: Restricted bank deposits	*(a)*	(18,931)	(35,793)	—	—
Cash and cash equivalents		801,019	1,257,526	607,232	510,942
Denominated in RMB	*(b)*	45,773	210,805	—	—
Denominated in USD		133,417	284,667	41	2
Denominated in HK$		621,749	761,974	607,191	510,940
Denominated in CAD		80	80	—	—
		801,019	1,257,526	607,232	510,942

Notes:

(a) As at 31 March 2012, the Group's bank balances of approximately HK$10,954,000 (2011: HK$9,907,000) 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 are fulfilled and accepted by the competent government entities.

As at 31 March 2012, the Group's bank balances of approximately HK$7,977,000 (2011: HK$25,886,000) were deposited at banks as a bank acceptance notes margin for construction equipment purchased with a term of six months.

(b) As at 31 March 2012, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to HK$45,773,000 (2011: HK$210,805,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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.

21. BILLS PAYABLE

	Group	
	2012	2011
	HK$'000	*HK$'000*
Bills payable	7,977	22,052

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within 1 month	—	6,884
1 to 2 months	4,424	—
2 to 3 months	3,553	—
Over 3 months	—	15,168
	7,977	22,052

The bills payable are non-interest-bearing and are normally settled on terms of within 180 days.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued salaries, wages and benefits	1,119	567	—	—
Other taxes payables	907	2	—	—
Other payables	113,088	51,970	7,306	8,743
Accruals	3,000	3,119	641	1,108
	118,114	55,658	7,947	9,851

Other payables mainly include payables to suppliers or contractors for the Group's addition of items of property, plant and equipment, which are non-interest-bearing and have an average term of three months.

23. CONVERTIBLE NOTES

On 18 January 2011, the Company issued three tranches of convertible notes, namely Tranche A, Tranche B and Tranche C convertible notes.

Tranche A and Tranche B

Tranche A convertible notes with a principal amount of HK$3,480,000,000 and Tranche B convertible notes with a principal amount of HK$4,300,000,000 were issued as part of the consideration of HK$7.8 billion for the acquisition of UE China (note 28).

Tranche A and Tranche B convertible notes are convertible at the option of the noteholders into ordinary shares on the basis of 10 ordinary shares for every HK$1 convertible note held. The conversion period for Tranche A and Tranche B convertible notes commences on 18 January 2011 (the issue date) and 19 July 2011 (the day following the end of six months after the issue date) respectively, and expiring on 11 January 2016 (five business days preceding the maturity date). The maturity date for these convertible notes is 18 January 2016 (the business day falling on the fifth anniversary of their issue date). These convertible notes are non-interest-bearing and may be redeemed by the Company on the maturity date at their respective principle amounts outstanding.

In the period from 1 April 2011 to 12 May 2011, HK$236,172,000 Tranche A convertible notes were converted by noteholders into ordinary shares on the basis of 10 ordinary shares for every HK$1 convertible note held. As such, an aggregate amount of HK$747,867,000 Tranche A convertible notes were converted by noteholders into ordinary shares during the period from 18 January 2011 (the date of issuance) to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held.

On 12 May 2011, the Company had a share consolidation for its ordinary shares. After that, HK$445,282,000 Tranche A convertible notes and HK$574,241,000 Tranche B convertible notes were converted by noteholders into ordinary shares in the period from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held.

Tranche C

The Company issued Tranche C convertible notes with a principal amount of HK$520,000,000, in order to finance the capital expenditures and operating costs required by the Group, subsequent to the acquisition, for the construction and development of the coal mines and the related coke processing facilities.

The conversion period for Tranche C convertible notes is the period commencing on 18 January 2011 and expiring on 11 January 2016. The maturity date is 18 January 2016.

Further, the Company may at its absolute discretion, elect to redeem the whole of or any part of the outstanding amount under Tranche C convertible notes at any time prior to the maturity date.

Tranche C convertible notes contain an early redemption option, however, as the directors believe that the convertible notes bear no interest, the early redemption price at par value approximates to the amortised cost of the host contract and the early redemption option is considered as closely related to the host contract. Hence, the early redemption option need not be separated from the host contract and not be measured at fair value with changes in fair value recognised in the consolidated income statement.

HK$436,198,000 Tranche C convertible notes were converted by noteholders into ordinary shares in the period from 1 April 2011 to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held. After that, the remaining HK$83,802,000 Tranche C convertible notes were converted by noteholders into ordinary shares in the period from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held.

The fair value of the liability component of these convertible notes was estimated at the issue date and amortised using an equivalent market interest rate of 6.7% per annum. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible notes have been split as to the liability and equity components as follows:

	Convertible notes		
	Liability component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Group and Company:			
Nominal value of convertible notes issued during the year of 2011	6,000,900	2,299,100	8,300,000
Amortised interest expense on convertible notes	77,459	—	77,459
Conversion of convertible notes	(511,695)	—	(511,695)
Carrying amount at 31 March 2011	5,566,664	2,299,100	7,865,764
Amortised interest expense on convertible notes	320,106	—	320,106
Conversion of convertible notes	(1,187,844)	(633,607)	(1,821,451)
Carrying amount at 31 March 2012	4,698,926	1,665,493	6,364,419

24. DEFERRED TAX

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

Deferred tax liabilities

Group

	2012		
	Fair value adjustment arising from acquisition of a subsidiary *HK$'000*	**Depreciation allowance in excess of related depreciation** *HK$'000*	**Total** *HK$'000*
At 1 April 2011	3,428,193	—	3,428,193
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(336)	2,942	2,606
Gross deferred tax liabilities at 31 March 2012	3,427,857	2,942	3,430,799

	2011		
	Fair value adjustment arising from acquisition of a subsidiary *HK$'000*	**Depreciation allowance in excess of related depreciation** *HK$'000*	**Total** *HK$'000*
At 1 April 2010	—	—	—
Fair value adjustment arising from acquisition of a subsidiary	3,428,277	—	3,428,277
Deferred tax credited to the income statement during the year *(note 10)*	(84)	—	(84)
Gross deferred tax liabilities at 31 March 2011	3,428,193	—	3,428,193

Temporary differences of deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2012 *HK$'000*	**2011** *HK$'000* (Restated)	**2012** *HK$'000*	**2011** *HK$'000*
Tax losses	145,884	104,731	85,880	90,166
Accelerated tax depreciation	—	(276)	—	—
	145,884	104,455	85,880	90,166

The above tax losses are available indefinitely or not more than five years (depending on the jurisdiction in which such tax losses were incurred) for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

Shares

	Company 2012	Company 2011
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 ordinary shares of HK$0.2 each (31 March 2011: 120,000,000,000 ordinary shares of HK$0.01 each)	1,200,000	1,200,000
2,000,000,000 (31 March 2011: 2,000,000,000) convertible non-voting preference shares of HK$0.02 each	40,000	40,000
Total authorised share capital	1,240,000	1,240,000
Issued and fully paid:		
1,154,859,788 ordinary shares of HK$0.2 each (31 March 2011: 6,118,410,913 ordinary shares of HK$0.01 each)	230,972	61,184

During the year, the movements in share capital were as follows:

(a) On 12 May 2011, the Company had a 20 to 1 share consolidation for its ordinary shares and thus the authorised share capital of the Company decreased to 6,000,000,000 shares with a par value of HK$0.2 each and the issued share capital of the Company decreased to 1,154,859,788 shares with a par value of HK$0.2 each for the year ended 31 March 2012.

(b) HK$236,172,000 Tranche A convertible notes, and HK$436,198,000 Tranche C convertible notes were converted by noteholders into ordinary shares in the period from 1 April 2011 to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held. HK$445,282,000 Tranche A convertible notes, HK$574,241,000 Tranche B convertible notes and HK$83,802,000 Tranche C convertible notes were converted by noteholders into ordinary shares from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held. During the year, an approximate amount of HK$177,569,000 was transferred from the convertible notes to the share capital account, and the remaining HK$1,643,882,000 was transferred to the share premium account.

(c) During the year, the Company repurchased 38,908,000 shares on the Stock Exchange at an aggregate consideration HK$62,145,000 and these shares were subsequently cancelled by the Company. The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by 38,908,000 shares with a par value of HK$0.2 each.

All ordinary shares and per share amounts presented in the accompanying consolidated financial statements have been retrospectively adjusted for all periods to give effect to the share consolidation. The par value of each ordinary share has been retrospectively adjusted for the 20 to 1 share consolidation.

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

	Notes	Number of shares in issue	Issued capital	Share premium account	Total
		'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2010		50,043	10,009	37,161	47,170
Conversion of convertible notes		255,848	51,169	460,526	511,695
Share options exercised		30	6	132	138
At 31 March 2011		305,921	61,184	497,819	559,003
At 1 April 2011		305,921	61,184	497,819	559,003
Conversion of convertible notes	*(b)*	887,847	177,569	1,643,882	1,821,451
Shares repurchased	*(c)*	(38,908)	(7,781)	(54,364)	(62,145)
At 31 March 2012		1,154,860	230,972	2,087,337	2,318,309

26. SHARE OPTION SCHEME

The Company operates a share option scheme, approved on 29 August 2011 (the "**Share Option Scheme**") to replace the share option scheme adopted by the Company on 29 October 2002, for the purpose of enabling the Company to continue to grant options to the eligible participants who, in the sole discretion of the Board, have made or may make contribution to the Group as well as to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. Eligible participants of the Share Option Scheme include any employee, contracted celebrity, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or any subsidiary (including any director, whether executive or non-executive and whether independent or not, of the Company or any subsidiary) who is in full time employment when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group. The Share Option Scheme became effective on 29 August 2011, the date on which the Share Option Scheme are conditionally adopted by an ordinary resolution of the shareholder and, unless otherwise cancelled or amended, will remain in force for 10 years from the adoption date.

During the year ended 31 March 2012, and at the end of the reporting period and at the date of approval of these financial statements, no option has been granted under the Scheme.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 70 to 71 of the financial statements.

(b) Company

	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 1 April 2010	37,161	84,798	38	(92,271)	29,726
Total comprehensive loss for the year	—	—	—	(97,864)	(97,864)
Conversion of convertible notes	460,526	—	—	—	460,526
Exercise of share options	132	—	(38)	—	94
At 31 March 2011 and 1 April 2011	497,819	84,798	—	(190,135)	392,482
Total comprehensive loss for the year	—	—	—	(334,266)	(334,266)
Conversion of convertible notes	1,643,882	—	—	—	1,643,882
Share repurchase	(54,364)	—	—	—	(54,364)
At 31 March 2012	2,087,337	84,798	—	(524,401)	1,647,734

28. BUSINESS COMBINATION

Business combination in 2011

On 18 January 2011, the Group acquired 100% issued shares of Up Energy Investment (China) Ltd., a subsidiary of the Group, at a total consideration of HK$7.8 billion. The total consideration of HK$7.8 billion was satisfied by the Group in the following manner: (a) a HK$10 million cash deposits was paid by the Group to Up Energy Holding Ltd. on 26 July 2010 and the remaining HK$10 million cash deposits was paid on 30 November 2010; and (b) the Group issued two tranches of convertible notes, including the issue of the Tranche A convertible notes with a principal amount of HK$3,480,000,000 and the Tranche B convertible notes with a principal amount of HK$4,300,000,000 as part of the consideration of HK$7.8 billion.

The fair values of the identifiable assets and liabilities of UE China as at the date of acquisition were as follows:

	Fair value of net identifiable assets and liabilities acquired
	HK$'000
Property, plant and equipment	14,011,567
Prepaid land lease payments	70,769
Inventories	26
Prepayments, deposits and other receivables	33,127
Restricted cash	25,618
Cash and cash equivalents	772,078
Other payables and accruals	(38,905)
Bills payable	(15,812)
Deferred tax liabilities	(3,428,277)
Non-controlling interests	(2,645,167)
Net identifiable assets acquired	8,785,024
Gain on bargain purchase recognised	(985,024)
Fair value of cost of investment	7,800,000
Satisfied by cash	20,000
Satisfied by convertible notes	7,780,000
	7,800,000

The Group incurred transaction costs of approximately HK$25,274,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	2011
	HK$'000
Cash consideration	(20,000)
Restricted cash	25,618
Cash and bank balances acquired	772,078
	777,696
Less: Restricted cash	(25,618)
Net inflow of cash and cash equivalents included in cash flows from investing activities	752,078
Transaction costs of the acquisition included in cash flows from operating activities	(16,901)
	735,177

Business combination in 2012

There was no business combination transaction in the current year.

29. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

As disclosed in note 25(b), HK$236,172,000 Tranche A convertible notes, and HK$436,198,000 Tranche C convertible notes were converted by noteholders into ordinary shares from 1 April 2011 to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held. HK$445,282,000 Tranche A convertible notes, HK$574,241,000 Tranche B convertible notes and HK$83,802,000 Tranche C convertible notes were converted by noteholders into ordinary shares from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held.

30. CONTINGENT LIABILITIES

On 10 July 2006, a legal action for damages of approximately HK$76,862,000 for breach of agreements was brought up by four plaintiffs (the "**Plaintiffs**"), who were the holders of the previous non-controlling interests of a former subsidiary of the Company. The Company is the first defendant and Investsource Limited (formerly known as "Sun Television Cybernetworks Company Limited") ("**Investsource**"), a former wholly-owned subsidiary of the Company that was disposed of by the Company in June 2004, is the second defendant.

It is alleged that in view of the failure by the Company and Investsource to acquire from the Plaintiffs the 60% equity interest in TV Viagens (Macau), S.A.R.L. ("**TV Viagens**") and to finance TV Viagens, TV Viagens is not financially able to continue its business due to the lack of working capital and therefore the shareholding of the Plaintiffs in TV Viagens has become valueless.

The Plaintiffs claimed against the Company for damages of approximately HK$76,862,000 or such an amount as the court may determine, interest thereon, costs and/or other relief due to the Company's alleged breach of agreements to provide finance to TV Viagens for its operational costs and for the service fees payable by TV Viagens.

The case was supposed to be set down for trial by the Plaintiffs on or before 18 January 2008 but the Plaintiffs have failed to do so, and the application by the Company to strike out the Plaintiffs' claim was successful.

The Plaintiffs had appealed the decision to the High Court and on 23 March 2011, the Company received a judgement awarded by the Hong Kong High Court, in which the appeal lodged by the Plaintiffs was dismissed with costs awarded to the Company.

On 29 April 2011, the Company received a Notice of Appeal, whereas the Plaintiffs wish to appeal to the High Court's decision again. Hearing was held on 23 September 2011, and the Plaintiffs' appeal was dismissed with cost by the Court of Appeal and no further appeal has been made by the Plaintiffs. Thus the Directors is of the opinion that no provision is required to be made for any losses or expenses which might arise from the above legal action.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases offices under operating lease arrangements, with leases negotiated for terms of two years.

At 31 March 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
With one year	2,260	1,554	2,022	1,554
In the second to fifth years, inclusive	69	915	22	915
	2,329	2,469	2,044	2,469

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	393,714	232,451

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	Loans and receivables	
	2012	2011
	HK$'000	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	25,357	8,315
Restricted bank deposits *(note 20)*	18,931	35,793
Cash and cash equivalents *(note 20)*	801,019	1,257,526
	845,307	1,301,634

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	HK$'000	*HK$'000*
Bills payable *(note 21)*	7,977	22,052
Financial liabilities included in other payables and accruals *(note 22)*	31,034	23,915
Tax payable	989	—
Convertible notes *(note 23)*	4,698,926	5,566,664
	4,738,926	5,612,631

Company

Financial assets

	Loans and receivables	
	2012	**2011**
	HK$'000	*HK$'000*
Financial assets included in prepayments, deposits and other receivables *(note 19)*	759	685
Amounts due from subsidiaries *(note 17)*	52,979	17,654
Cash and cash equivalents *(note 20)*	607,232	510,942
	660,970	529,281

Financial liabilities

	Financial liabilities at amortised cost	
	2012	**2011**
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals *(note 22)*	7,947	9,851
Amounts due to subsidiaries *(note 17)*	209,898	—
Convertible notes *(note 23)*	4,698,926	5,566,664
	4,916,771	5,576,515

34. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value estimates are made at a specific point in time and are based on relevant market information and 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.

As 31 March 2012 and 2011, the Company did not hold any financial instruments that were measured at fair value.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances, deposits and other receivables and restricted bank deposits, which arise directly from its operations. Financial liabilities of the Group mainly include bills payable, other payables and accruals, tax payable and convertible notes.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's interest-bearing assets consist of cash deposits with fixed interest rates. The Group and the Company did not have any interest-bearing liability. The Group's policy is to manage its interest cost and income using fixed rate instruments. Therefore, the Group considers that the exposure to interest rate risk is insignificant.

Foreign currency risk

Other than the exposure of bank deposits made in foreign currencies, the Company and its subsidiaries are not exposed to significant foreign currency exchange risks as their transactions and balances were substantially denominated in their respective functional currencies.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, deposits and other receivable, included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

Bank deposits are placed in banks with a strong credit rating. Management does not expect any losses from non-performance by these banks.

The credit risk of the Group's other financial assets, which comprise other receivables and restricted cash, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the funding from equity holders and the use of payables to related parties.

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

Group

2012	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bills payable	—	—	7,977	—	7,977
Other payables and accruals	7,855	75,841	34,418	—	118,114
Convertible notes	—	—	—	4,698,926	4,698,926
	7,855	75,841	42,395	4,698,926	4,825,017

2011	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bills payable	—	22,052	—	—	22,052
Other payables and accruals	48,491	7,167	—	—	55,658
Convertible notes	—	—	—	5,566,664	5,566,664
	48,491	29,219	—	5,566,664	5,644,374

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

Company

2012	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	7,306	641	—	—	7,947
Amounts due to subsidiaries	209,898	—	—	—	209,898
Convertible notes	—	—	—	4,698,926	4,698,926
	217,204	641	—	4,698,926	4,916,771

2011	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	—	2,545	7,306	—	9,851
Convertible notes	—	—	–	5,566,664	5,566,664
	—	2,545	7,306	5,566,664	5,576,515

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the directors of the Company review the capital structure on a regular basis. During the development and construction stage of the coal mines and coke processing facilities, the shareholders of the Company contributed capital based on the needs of these entities. Management regularly review the capital structure.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value. The Group's financial liability is mainly in respect of the liability component of its convertible notes, details of which have been closed in note 23.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital during the year.

36. COMPARATIVE AMOUNTS

Reclassification of certain comparative amounts has been made to conform to changes in presentation in the current year.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2012.

3. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 AND 2012

Set out below are the unaudited financial statements of the Group for the six months ended 30 September 2011 and 2012, which is published in the Company's interim report published on 20 November 2012.

Interim Condensed Consolidated Income Statement
For the six months ended 30 September 2012

	Notes	Six months ended 30 September 2012 (Unaudited) HK$'000	2011 (Unaudited and restated) HK$'000
CONTINUING OPERATION			
REVENUE	3	—	—
Cost of sales		—	—
Gross profit		—	—
Other income and gains, net		1,764	1,320
Administrative expenses		(29,212)	(54,034)
LOSS BEFORE TAX FROM CONTINUING OPERATING ACTIVITIES		(27,448)	(52,714)
Finance costs	5	(11,657)	(9,602)
LOSS BEFORE TAX FROM CONTINUING OPERATION	4	(39,105)	(62,316)
Income tax expense	6	(641)	168
LOSS FOR THE PERIOD FROM CONTINUING OPERATION		(39,746)	(62,148)
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	7	—	31
LOSS FOR THE PERIOD		(39,746)	(62,117)

		Six months ended 30 September	
		2012	**2011**
		(Unaudited)	(Unaudited and restated)
	Notes	*HK$'000*	*HK$'000*
Attributable to:			
Owners of the Company		(34,159)	(58,131)
Non-controlling interests		(5,587)	(3,986)
		(39,746)	(62,117)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic			
— For loss for the period		(2.24 cents)	(7.48 cents)
— For loss from continuing operation		(2.24 cents)	(7.49 cents)
Diluted			
— For loss for the period		(2.24 cents)	(7.48 cents)
— For loss from continuing operation		(2.24 cents)	(7.49 cents)

Details of the restatement due to discontinued operation are disclosed in note 7 to the interim condensed consolidated financial statements.

Details of dividends are disclosed in note 8 to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 September 2012

	Six months ended 30 September	
	2012 (Unaudited) *HK$'000*	**2011** (Unaudited and restated) *HK$'000*
LOSS FOR THE PERIOD	(39,746)	(62,117)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	303	18,171
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	303	18,171
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(39,443)	(43,946)
Attributable to:		
Owners of the Company	(33,926)	(44,202)
Non-controlling interests	(5,517)	256
	(39,443)	(43,946)

Interim Condensed Consolidated Statement of Financial Position
30 September 2012

	Notes	30 September 2012 (Unaudited) HK$'000	31 March 2012 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	15,225,993	14,803,369
Prepaid land lease payments	11	67,304	68,579
Restricted bank deposits	13	16,180	10,954
Total non-current assets		15,309,477	14,882,902
CURRENT ASSETS			
Inventories		4,592	5,680
Prepayments, deposits and other receivables	12	93,857	61,545
Restricted bank deposits	13	16,920	7,977
Cash and cash equivalents	13	536,997	801,019
Total current assets		652,366	876,221
CURRENT LIABILITIES			
Bills payable	14	16,920	7,977
Other payables and accruals	15	195,434	118,114
Tax payable		1,873	989
Total current liabilities		214,227	127,080
NET CURRENT ASSETS		438,139	749,141
TOTAL ASSETS LESS CURRENT LIABILITIES		15,747,616	15,632,043
NON-CURRENT LIABILITIES			
Convertible notes	16	4,163,136	4,698,926
Deferred tax liabilities	17	3,430,522	3,430,799
Total non-current liabilities		7,593,658	8,129,725
NET ASSETS		8,153,958	7,502,318
EQUITY			
Equity attributable to owners of the Company			
Issued capital	18	316,572	230,972
Equity component of convertible notes	16	1,428,381	1,665,493
Reserves		3,761,204	2,952,535
		5,506,157	4,849,000
Non-controlling interests		2,647,801	2,653,318
TOTAL EQUITY		8,153,958	7,502,318

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2012

	Attributable to owners of the Company									
(Unaudited)	Issued capital HK$'000 note 18	Share premium account HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Equity component of convertible notes HK$'000 note 16	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2012	230,972	2,087,337	84,798	18,393	3,490	1,665,493	758,517	4,849,000	2,653,318	7,502,318
Loss for the period	—	—	—	—	—	—	(34,159)	(34,159)	(5,587)	(39,746)
Other comprehensive income for the period										
Exchange differences on translation of foreign operations	—	—	—	233	—	—	—	233	70	303
Total comprehensive loss for the period	—	—	—	233	—	—	(34,159)	(33,926)	(5,517)	(39,443)
Conversion of convertible notes	85,600	842,595	—	—	—	(237,112)	—	691,083	—	691,083
At 30 September 2012	316,572	2,929,932	84,798	18,626	3,490	1,428,381	724,358	5,506,157	2,647,801	8,153,958

	Attributable to owners of the Company										
(Unaudited)	Issued capital HK$'000	Share premium account HK$'000	Treasury Shares HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Equity component of convertible notes HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total Equity HK$'000
At 1 April 2011	61,184	497,819	—	84,798	3,888	3,490	2,299,100	849,874	3,800,153	2,658,810	6,458,963
Loss for the period	—	—	—	—	—	—	—	(58,131)	(58,131)	(3,986)	(62,117)
Other comprehensive income for the period											
Exchange differences on translation of foreign operations	—	—	—	—	13,929	—	—	—	13,929	4,242	18,171
Total comprehensive loss for the period	—	—	—	—	13,929	—	—	(58,131)	(44,202)	256	(43,946)
Conversion of convertible notes	156,724	1,462,390	—	—	—	—	(575,864)	—	1,043,250	—	1,043,250
Repurchase of shares	—	—	(11,624)	—	—	—	—	—	(11,624)	—	(11,624)
At 30 September 2011	217,908	1,960,209	(11,624)	84,798	17,817	3,490	1,723,236	791,743	4,787,577	2,659,066	7,446,643

Interim Condensed Consolidated Statement of Cash Flows
For the six months ended 30 September 2012

		Six months ended 30 September	
		2012	**2011**
		(Unaudited)	(Unaudited)
	Note	*HK$'000*	*HK$'000*
Net cash flows used in operating activities		(23,543)	(33,213)
Net cash flows used in investing activities		(240,123)	(213,545)
Net cash flows used in financing activities		—	(11,624)
Net decrease in cash and cash equivalents		(263,666)	(258,382)
Cash and cash equivalents at beginning of period	*13*	801,019	1,257,526
Effect of foreign exchange rate changes, net		(356)	4,019
Cash and cash equivalents at end of period	*13*	536,997	1,003,163

Notes to the Interim Condensed Consolidated Financial Statements

30 September 2012

1. CORPORATE INFORMATION

Up Energy Development Group Limited (the "**Company**") was incorporated as an exempted company with limited liability in Bermuda on 30 October 1992 under the Companies Act 1981 of Bermuda and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the principal place of business of the Company is Room 2704, 27/F, Tower 1, Admiralty centre, 18 Harcourt Road, Admiralty, Hong Kong.

The principal activity of the Company is investment holding and during the period the principal activities of its subsidiaries mainly include development and construction of coal mining and coke processing facilities ("**Coal Mining**").

As at 30 September 2012, the Company had direct or indirect interests in the following principal subsidiaries:

Subsidiaries	Place and date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Up Energy Investment (China) Ltd. ("**UE China**")	British Virgin Islands ("**BVI**") 31 October 2003	US$50,000	100.00	Investment holding
Up Energy (Xinjiang) Mining Co., Ltd. ("**UE Xinjiang**", 優派能源(新疆)礦業有限公司)	The People's Republic of China ("**Mainland China**" or the "**PRC**") 2 November 2005	US$30,000,000	70.00	Coal mining, manufacture and sale of coke and clean coke
Up Energy (Hong Kong) Limited ("**UE HK**")	Hong Kong 29 December 2009	HK$10,000	100.00	Investment holding
Up Energy International Ltd. ("**UE International**")	BVI 22 January 2010	US$50,000	100.00	Investment holding
Up Energy (Fukang) Coal Mining Ltd. ("**UE Coal Mining**")	PRC 4 February 2010	US$15,000,000	90.00	Mine construction
Up Energy (Fukang) Coking Ltd. ("**UE Coking**")	PRC 4 February 2010	US$11,500,000	70.00	Manufacture and sale of coke and clean coke
Up Energy (Fukang) Coal Washing Ltd. ("**UE Coal Washing**")	PRC 4 February 2010	US$5,000,000	70.00	Coal washing
Up Energy (Fukang) Recycled Water Project Ltd. ("**UE Water**")	PRC 4 February 2010	US$3,200,000	70.00	Water recycling
Up Energy Development (HK) Limited	Hong Kong 4 November 2010	HK$1	100.00	Investment holding
Up Energy Management Limited (formerly known as Sun Arts Ltd.)	Hong Kong 2 November 1993	HK$2	100.00	Provision of management services

Subsidiaries	Place and date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Up Energy Trading Limited (formerly known as Goldmax Trading Limited)	Hong Kong 19 February 2009	HK$1	100.00	Inactive company
Up Energy Development Group (BVI) Co., Ltd. (formerly known as Silver Brilliant International Limited)	BVI 5 January 2011	US$1	100.00	Investment holding
Up Energy Overseas Corporation	BVI 11 July 2012	US$1	100.00	Investment holding
Up Energy Resources Company Limited (formerly known as Virtue Success Limited)	BVI 23 August 2012	US$1	100.00	Investment holding
Up Energy Mining Limited (formerly known as Able Goal Group Limited)	BVI 3 July 2012	US$1	100.00	Investment holding

The Company has entered into a share charge in connection with the issue of the convertible notes of the Company. Pursuant to the share charge, the charge is created over (i) entire issued share capital of Up Energy Investment (China) Ltd.; (ii) the entire issued share capital of Up Energy International Ltd.; and (iii) the entire issued share capital of Up Energy (Hong Kong) Limited. All of the companies are wholly owned subsidiaries of the Company. Save as above, the Group did not have any charges on assets as at 30 September 2012.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2012 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2012.

2.2 Basis of consolidation

The interim condensed consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 September 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

2.3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2012, except for the adoption of new standards, interpretations and amendments as of 1 April 2012, noted below:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standard — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

Further information about those changes that affect the Group is as follows:

The amendments to HKFRS 1 define when an entity's date of transition to HKFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to HKFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening HKFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The adoption of HKFRS 1 Amendments does not have significant impact on the Group's interim condensed consolidated financial statements.

The amendments to HKFRS 7 enhance disclosures for financial assets. These disclosures relate to assets transferred (as defined under HKAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of HKFRS 7 Amendments does not have significant impact on the Group's interim condensed consolidated financial statements.

The amendments to HKAS 12 include a rebuttable presumption that the carrying amount of investment property measured using the fair value model in HKAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, HKAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in HKAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. The adoption of HKAS 12 Amendments does not have significant impact on the Group's interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. REVENUE AND OPERATING SEGMENT INFORMATION

The Group has no revenue or turnover from continuing operation during the six months ended 30 September 2012. The revenue from the discontinued multi-media products trading operation represents the invoiced values of goods sold, after allowances for returns and discounts.

Operating segment information

For management purposes, the Group is organised into business units based on their products and services. The Group has no revenue recognised during the period and the loss for the period was only derived from one continuing segment which is coal mining.

On 31 March 2012, the business of multi-media products trading was discontinued as the sole director of Up Energy Trading Limited (formerly known as Goldmax Trading Limited), a wholly-owned subsidiary of the Company, resolved to terminate the said business. Therefore, for the six months ended 30 September 2012, the Group only operated its coal mining segment and accordingly, there is no presentation of operating segment information. In addition, segment information on the discontinued operation has been disclosed in note 7.

Furthermore, for the six months ended 30 September 2012, the coal mines and coke processing facilities are still in construction and as the majority of the Group's non-current assets is located in the Xinjiang Uygur Autonomous Region, the People's Republic of China ("**Mainland China**" or the "**PRC**"), no geographical information and information about major customers are presented.

4. LOSS BEFORE TAX

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

		Six months ended 30 September	
		2012	**2011**
		(Unaudited)	(Unaudited and restated)
	Note	*HK$'000*	*HK$'000*
Depreciation of items of property, plant and equipment		4,919	4,243
Amortisation of prepaid land lease payments		1,095	1,050
Total depreciation and amortisation		6,014	5,293
Auditors' remuneration		633	603
Minimum lease payments under operating leases:			
Property rentals		1,377	1,092
Foreign exchange differences, net	*5*	2,269	(369)
Bank interest income		(1,629)	(1,252)

5. FINANCE COSTS

An analysis of finance costs from continuing operation is as follows:

	Six months ended 30 September	
	2012	**2011**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Foreign exchange loss/(gain)	2,269	(369)
Amortised interest of convertible notes *(note 16)*	155,293	166,481
Less: Interest capitalised	(145,905)	(156,510)
	9,388	9,971
	11,657	9,602

6. INCOME TAX EXPENSE

The provision for PRC corporate income tax ("**CIT**") is based on the CIT rate applicable to the companies located in or deemed to be operating in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 September 2012 and 2011.

No provision for Hong Kong profits tax had been made as the Group had no estimated assessable profits arising in Hong Kong during the six months ended 30 September 2012 and 2011.

	Six months ended 30 September	
	2012	**2011**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Income tax:		
Current tax — Mainland China	918	—
Deferred tax *(note 17)*	(277)	(168)
Total income tax charge/(credit) for the period	641	(168)

7. DISCONTINUED OPERATION

On 31 March 2012, the sole director of Up Energy Trading Limited (formerly known as Goldmax Trading Limited), a subsidiary of the Company, resolved that the business of multi-media products trading be terminated with immediate effect. Accordingly, in the year ended 31 March 2012, the multi-media products trading business was classified as a discontinued operation.

The results of a discontinued operation are presented below:

	Six months ended 30 September 2011 (Unaudited and restated) *HK$'000*
Revenue	5,078
Expenses	(5,047)
Profit before tax from a discontinued operation	31
Income tax expense	—
Profit for the period from a discontinued operation	31

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2012 (six months ended 30 September 2011: Nil).

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,522,051,045 (six months end 30 September 2011: 776,728,213) in issue during the period, as adjusted to reflect the conversion of the Tranche B convertible notes.

The calculation of diluted loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

		Six months ended 30 September	
		2012 (Unaudited) *HK$'000*	2011 (Unaudited and restated) *HK$'000*
Loss			
Loss attributable to ordinary equity holders of the Company, used in the basic loss per share calculation			
From continuing operation		(34,159)	(58,162)
From a discontinued operation		—	31
		(34,159)	(58,131)
Interest on convertible notes		9,388	9,971
Loss attributable to ordinary equity holders of the Company before interest on convertible notes		(24,771)	(48,160)
Attributable to:			
Continuing operation		(24,771)	(48,191)
Discontinued operation		—	31
		(24,771)	(48,160)

		Number of shares Six months ended 30 September	
		2012 (Unaudited) *HK$'000*	2011 (Unaudited and restated) *HK$'000*
Shares			
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation		1,522,051,045	776,728,213
Effect of dilution — weighted average number of ordinary shares:			
Convertible notes		2,639,113,844	3,110,534,654
		4,161,164,889	3,887,262,867
Loss per share			
Basic			
— For loss for the period		(2.24 cents)	(7.48 cents)
— For loss from continuing operation		(2.24 cents)	(7.49 cents)
Diluted	*(a)*		
— For loss for the period		(2.24 cents)	(7.48 cents)
— For loss from continuing operation		(2.24 cents)	(7.49 cents)

(a) Because the potential ordinary shares arising from the conversion of convertible notes had an anti-dilutive effect on the basic loss per share for the six months ended 30 September 2012, hence they were ignored in the calculation of diluted loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2012, the Group's addition of items of property, plant and equipment with an aggregate cost amounted to approximately HK$435,788,000 (six months ended 30 September 2011: HK$391,643,000), mainly representing the increase in the Group's construction for mining properties of HK$419,323,000 (six months ended 30 September 2011: HK$353,506,000). Motor vehicle and equipment with a net carrying amount amounting to HK$24,000 (six months ended 30 September 2011: Nil) were disposed of during the six months ended 30 September 2012, resulting in a gain on disposal of HK$47,000 (six months ended 30 September 2011: Nil).

11. PREPAID LAND LEASE PAYMENTS

	30 September 2012	**31 March 2012**
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Carrying amount at beginning of period/year	70,638	70,529
Addition for the period/year	—	1,406
Amortisation for the period/year	(1,095)	(2,111)
Exchange realignment	(198)	814
Carrying amount at end of period/year	69,345	70,638
Current portion included in prepayments, deposits and other receivables	(2,041)	(2,059)
Non-current portion	67,304	68,579

The leasehold properties are situated in Mainland China and held under long term leases.

12. PREPAYMENTS, DEPOSIT AND OTHER RECEIVABLES

	30 September 2012	**31 March 2012**
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Advance to suppliers	58,302	36,188
Deposits	1,350	1,082
Advance to employees	885	414
Valued-added tax	32,623	22,874
Other receivables	697	987
	93,857	61,545

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

13. CASH AND CASH EQUIPMENTS

	Note	30 September 2012 (Unaudited) HK$'000	31 March 2012 (Audited) HK$'000
Cash and bank balances		570,097	819,950
Less: Restricted bank deposits	(a)	(33,100)	(18,931)
Cash and cash equivalents		536,997	801,019
Denominated in RMB		11,035	45,773
Denominated in USD		12,636	133,417
Denominated in HK$		513,241	621,749
Denominated in CAD		85	80
		536,997	801,019

(a) As at 30 September 2012, the Group's bank balances of approximately HK$16,180,000 (31 March 2012: HK$10,954,000) 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 are fulfilled and accepted by the competent government agencies.

As at 30 September 2012, the Group's bank balances of approximately HK$16,920,000 (31 March 2012: HK$7,977,000) were deposited at banks as a bank acceptance notes margin for construction equipment purchased with a term of six to twelve months.

14. BILLS PAYABLE

	30 September 2012 (Unaudited) HK$'000	31 March 2012 (Audited) HK$'000
Bills payable	16,920	7,977

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

	30 September 2012 (Unaudited) HK$'000	31 March 2012 (Audited) HK$'000
Within 1 month	—	—
1 to 2 months	—	4,424
2 to 3 months	5,845	3,553
Over 3 months	11,075	—
	16,920	7,977

The bills payable are non-interest-bearing and are normally settled within one year.

15. OTHER PAYABLES AND ACCRUALS

	30 September 2012 (Unaudited) *HK$'000*	31 March 2012 (Audited) *HK$'000*
Accrued salaries, wages and benefits	1,284	1,119
Other taxes payables	1,411	907
Other payables	189,707	113,088
Accruals	3,032	3,000
	195,434	118,114

Other payables mainly include payables to suppliers or contractors for the Group's addition of items of property, plant and equipment, which are non-interest-bearing and have an average term of three months.

16. CONVERTIBLE NOTES

HK$856,000,000 Tranche B convertible notes were converted by noteholders into ordinary shares during the six months ended 30 September 2012 on the basis of one ordinary share for every HK$2 convertible note held.

The convertible notes have been split as to the liability and equity components as follows:

	Convertible notes		
	Liability component	**Equity component**	**Total**
(Unaudited)	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at 1 April 2012	4,698,926	1,665,493	6,364,419
Amortised interest expense on convertible notes *(note 5)*	155,293	—	155,293
Conversion of convertible notes	(691,083)	(237,112)	(928,195)
Carrying amount at 30 September 2012	4,163,136	1,428,381	5,591,517

	Convertible notes		
	Liability component	**Equity component**	**Total**
(Audited)	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at 1 April 2011	5,566,664	2,299,100	7,865,764
Amortised interest expense on convertible notes	320,106	—	320,106
Conversion of convertible notes	(1,187,844)	(633,607)	(1,821,451)
Carrying amount at 31 March 2012	4,698,926	1,665,493	6,364,419

17. DEFERRED TAX

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

Deferred tax liabilities

(Unaudited)	**Fair value adjustment arising from acquisition of a subsidiary** *HK$'000*	**Depreciation allowance in excess of related depreciation** *HK$'000*	**Total** *HK$'000*
At 1 April 2012	3,427,857	2,942	3,430,799
Deferred tax credited to the income statement during the period *(note 6)*	(168)	(109)	(277)
Gross deferred tax liabilities at 30 September 2012	3,427,689	2,833	3,430,522

(Audited)	**Fair value adjustment arising from acquisition of a subsidiary** *HK$'000*	**Depreciation allowance in excess of related depreciation** *HK$'000*	**Total** *HK$'000*
At 1 April 2011	3,428,193	—	3,428,193
Deferred tax charged/(credited) to the income statement during the year	(336)	2,942	2,606
Gross deferred tax liabilities at 31 March 2012	3,427,857	2,942	3,430,799

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

18. SHARE CAPITAL

Shares

	30 September 2012 (Unaudited) *HK$'000*	**31 March 2012** (Audited) *HK$'000*
Authorised:		
6,000,000,000 ordinary shares of HK$0.2 each (31 March 2012: 6,000,000,000 ordinary shares of HK$0.2 each)	1,200,000	1,200,000
2,000,000,000 (31 March 2012: 2,000,000,000) convertible non-voting preference shares of HK$0.02 each	40,000	40,000
Total authorised share capital	1,240,000	1,240,000
Issued and fully paid:		
1,582,859,788 ordinary shares of HK$0.2 each (31 March 2012: 1,154,859,788 ordinary shares of HK$0.2 each)	316,572	230,972

During the period, the movements in share capital were as follows:

(a) HK$856,000,000 Tranche B convertible notes were converted by noteholders into ordinary shares during the period on the basis of one ordinary share for every HK$2 convertible note held. An approximate amount of HK$85,600,000 was transferred from the convertible notes to the share capital account.

Shares options

The Company operates a share option scheme, approved on 29 August 2011 (the "Share Option Scheme"). During the six months ended 30 September 2012, at the end of the reporting period and at the date of approval of these interim condensed consolidated financial statements, no option has been granted under the Share Option Scheme.

19. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases offices under operating lease arrangements, with leases negotiated for terms of one or two years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2012 (Unaudited) *HK$'000*	31 March 2012 (Audited) *HK$'000*
Within one year	1,100	2,260
In the second to fifth years, inclusive	37	69
After five years	—	—
	1,137	2,329

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments at the end of the reporting period:

	30 September 2012 (Unaudited) *HK$'000*	31 March 2012 (Audited) *HK$'000*
Contracted, but not provided for:		
Property, plant and equipment	370,314	393,714

21. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following transactions with related parties during the period:

(a) Related party transactions

During the six months ended 30 September 2012, the Company conducted foreign currency exchange transactions at zero service cost with two related parties, i.e. Up Energy Holding Limited and Wang Mingquan to exchange HK$45,000,000 and HK$5,700,000 into RMB36,527,850 and RMB4,626,861 respectively.

(b) Compensation of key management personnel

No significant compensation arrangement has been entered into with the executive directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel compensation).

The following table provides the emoluments paid to the key management personnel during the six months ended 30 September 2012 and 2011.

	Six months ended 30 September	
	2012	**2011**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	3,117	2,888
Pension scheme contributions	17	13
	3,134	2,901

22. EVENTS AFTER THE REPORTING PERIOD

On 12 October 2012, the Company, Up Energy Mining Limited (as purchaser) and Hao Tian Resources Group Limited (the "Vendor") entered into a sale and purchase agreement in relation to the acquisition of Champ Universe Limited. Pursuant to the sale and purchase agreement, the consideration for the sale and purchase of sale share and the transfer of all rights, title, benefit and interest of and in the shareholder's loan was HK$1.58 billion, subject to adjustments as set out in the sale and purchase agreement, of which HK$735 million shall be paid by way of issue and allotment to the Vendor (or its nominee(s)) of 367,500,000 ordinary shares of the Company at an issue price of HK$2.00 per share free from all encumbrances and credited as fully paid upon completion; and the balance of HK$845 million shall be paid to the Vendor in cash. The completion of the sale and purchase agreement is conditional upon the fulfillment of various conditions precedent.

23. COMPARATIVE AMOUNTS

Reclassification of certain comparative amounts has been made to conform to changes in presentation of discontinued operation as described in note 7 in the prior period.

24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 20 November 2012.

4. INDEBTEDNESS STATEMENT

Borrowings

At the close of business on 31 December 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had finance lease liabilities and outstanding convertible notes with aggregate principal amount of HK$144,833,000 and HK$5,156,610,000 respectively.

Capital commitments

At the close of business on 31 December 2012, the Group had capital commitments, which were contracted but not provided for, in respect of property, plant and equipment of approximately HK$455,881,000.

Pledged assets

The Group had pledged its bank deposits of HK$16,713,000 and HK$14,001,000 respectively as at 31 December 2012 as a deposit for land disturbance and environmental rehabilitation as required by the related government regulations and for bank acceptance notes margin for construction equipment purchased with a term of six to twelve months.

As at 31 December 2012, finance lease liabilities are effectively secured by the underlying assets that consist of certain of the Group's property, plant and equipment with a carrying amount of HK$144,800,000.

Disclaimer

Save as aforesaid in this section of the circular and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 December 2012, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or any term loans (secured, unsecured, guaranteed or otherwise), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and any liabilities under acceptances (other than normal trade bills) or other similar indebtedness, acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

At the Latest Practicable Date, the Group had outstanding convertible notes with aggregate principal amount of HK$4,926,747,000 upon the exercise of certain conversion rights attached to the convertible notes. Save as aforesaid in this section of the circular, the Directors confirmed that there have been no material changes in the indebtedness and any collateral, contingent liabilities or capital commitments of the Group since 31 December 2012 and up to the Latest Practicable Date.

5. EVENTS AFTER THE REPORTING PERIOD

On 1 November 2012, the Company announced a very substantial acquisition on acquiring the Baicheng coal mine in Xinjiang. On 8 January 2013, the Company announced a discloseable transaction on acquiring a coal deposit in Tajikistan. For further information, please refer to the announcements made on 1 November 2012 and 8 January 2013 accordingly.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As at 30 September 2012, the Group had a total of 251.15Mt of JORC-compliant measured, indicated and inferred coal resources and a total of 70.24Mt of JORC-compliant proved and probable marketable coal reserves. In addition, the potential coal reserves of the Shizhuanggou Mine and Quanshuigou Mine amount to 51.94Mt in total.

As of 30 September 2012, the JORC-compliant measured, indicated and inferred coal resources as well as the JORC-compliant proved and probable marketable coal reserves of the Group are categorized as follows:

Unit: Mt

Name	**Coal Resources**			**Marketable Coal Reserves**	
Category	Measured	Indicated	Inferred	Proved	Probable
Amount	148.516	61.199	41.437	51.958	18.277
Total	**251.152**			**70.235**	

In addition, the potential coal reserves of the Shizhuanggou Mine and Quanshuigou Mine amount to 5,194 Mt in total. During the six months period ended 30th September 2012, the Group has continued the additional exploration activities in the northern mining area. The additional exploration activities are still in progress. After preliminary analysis of the holes drilled, there is no substantial change in the Group's coal resource and coal types. The original exploration report of the Xiaohuangshan Mine has been completed and six more holes were drilled. A total of 3,382 metres were drilled.

The Group's loss before tax from continuing operation decreased by 48% to HK$27,448,000 for the six months ended 30 September 2012 from HK$52,714,000 for the corresponding period in 2011, which was due to a decrease in administrative expenses. Finance costs increased to HK$11,657,000 for the six months ended 30 September 2012 from HK$9,602,000 for the corresponding period in 2011. The increase was primarily due to foreign exchange loss for the six months ended 30 September 2012. As a result, the Group's result for the six months ended 30 September 2012 recorded a loss of HK$39,746,000 compared to a loss of HK$62,117,000 for the corresponding period in 2011. The Group's addition of items of property, plant and equipment for the six months period ended 30 September 2012 were mainly for mine development and processing facilities construction of the Group approximately amounted to HK$435,788,000 which included HK$419,323,000 for construction in progress and HK$16,465,000 for other capital expenditures.

As at 30 September 2012, the Group's current ratio was 3.0 compared to 6.9 as at 31 March 2012, with current assets of approximately HK$652,366,000 against current liabilities of approximately HK$214,227,000. Cash and cash equivalents were approximately HK$536,997,000, and except for these cash and cash equivalents, the Group had no other significant interest-bearing assets. The Group's income and operating cash flows were substantially independent of changes in market interest rates, and the Group did not anticipate significant impact on interest-bearing assets resulting from changes in interest rates because the interest rates of its bank deposits were not expected to change significantly. The Group's gearing ratio was 93% as at 30 September 2012. The Group's working capital requirement is mainly financed through internally generated cash flows, borrowings, and equity financing. There has not been any material changes in the Group's funding and treasury policies in during the six months period ended 30 September 2012 and the Group has continued to follow the practice of prudent cash management.

Currently, testing and tuning of equipment for the Shizhuanggou Mine will be scheduled to carry out during the third quarter of 2013 in preparation for the trial production.

Installation, testing and tuning of equipment for the Quanshuigou Mine will be scheduled to carry out during the third quarter of 2013 in preparing for the trial production.

Based on the information released by the China Coal and Resources and World Steel Association, the Group anticipates that with gradual recovery of the steel industry, the demand and price for domestic coking coal will pick up steadily.

In addition, the Group entered into various agreements in technological cooperation framework, technological co-operation and technological consultation with the Pingan Coal Mine and Gas (Methane) Engineering Research Limited ("**Pingan Gas**") for providing a safe and efficient environment for shaft construction and future production through researches in safety of mine gas, pit water and advanced mining technologies. Pingan Gas is a research institute managed and controlled by Huainan Mining Industry (Group) Co., Ltd. (淮南礦業(集團)有限公司)*.

Looking ahead, the Group will continue to adhere to its business concept of "increased value in circulation" by extending its production chain from coal exploration, mining, washing to coking and chemicals. Through investment in coking coal projects in upstream and downstream industry chain and chemical by-products produced during the processing of coking coal, the Group is able to enhance added value of coal products through effective utilization of coal resources with an aim to maximizing its profitability. The Group is determined to become a leading professional and integrated energy group in the coking coal industry in northwestern China.

* *For identification purpose only*

7. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group, including the internally generated funds and the estimated net proceeds from the Rights Issue, and barring any unforeseen circumstances, the Group has sufficient working capital for its present requirements, that is for at least twelve months from the date of this circular.

8. MATERIAL CHANGE

According to the interim report of the Company for the six months ended 30th September 2012, the Xiaohuangshan Mine, the Shizhuanggou Mine and Quanshuigou Mine are still under construction, the Group has not commenced production and did not record any revenue for the six months ended 30th September 2012. The loss of the Group for the six months ended 30th September 2012 was HK$39.7 million.

On 21st October 2012, the Group entered into a sales and purchase agreement with an independent third party pursuant to which the Group conditionally agreed to acquire a target company, which through a several layers of subsidiaries, owns a coal mine in Xinjiang at a consideration of HK$1.58 billion, and the transaction constituted a very substantial acquisition under the Listing Rules. For further information, please refer to item (d) under the section headed Material Contracts of Appendix III to this circular and the announcement published by the Company dated 1st November 2012.

On 19th December 2012, the Group entered into a sales and purchase agreement with an independent third party pursuant to which the Group conditionally agreed to acquire a target company, which through a several layers of subsidiaries, owns a coal mine in Tajikistan at a consideration of HK$394,648,000 (subject to adjustment), and the transaction constituted a discloseable transaction under the Listing Rules. For further information, please refer to item (e) under the section headed Material Contracts of Appendix III to this circular and the announcement published by the Company dated 8th January 2013.

Save as disclosed in above paragraphs under this section, the Directors confirmed that there have been no material changes in the financial or trading position or outlook of the Group since 31st March 2012, the date to which the latest published audited consolidated accounts of the Group were made up to the Latest Practicable Date.

A. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Rights Issue on the consolidated net tangible assets of the Group as if the Rights Issue had been completed on 30 September 2012.

The unaudited pro forma statement of consolidated net tangible assets of the Group has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Rights Issue been completed as at 30 September 2012 or any future date.

The following unaudited pro forma statement of consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 September 2012 and adjusted to reflect the effect of the Rights Issue:

	Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012	**Estimated net proceeds from Rights Issue**	**Unaudited pro forma consolidated net tangible assets of the Group attributable to the owners of the Company**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 3)*	
Based on 848,895,627 Rights Shares at Subscription Price of HK$0.50 per Rights Share *(Note 1)*	5,506,157	415,787	5,921,944
			HK$
Unaudited consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 30 September 2012 *(Note 4)*			3.48
Unaudited pro forma consolidated net tangible assets of the Group as at 30 September 2012 attributable to the owners of the Company per Share immediately after the completion of the Rights Issue (assuming 848,895,627 Rights Shares are issued) *(Note 5)*			2.33

Notes:

1. The Rights Issue of 848,895,627 Rights Shares is based on 1,697,791,255 Shares in issue on the Latest Practicable Date. 1,697,791,255 Shares is calculated based on 1,582,859,788 issued shares of the Company as at 30 September 2012 after taking into account the issue of 114,931,467 Shares (the "**New Shares Issued**") upon the exercise of the Convertible Notes from 1 October 2012 to the Latest Practicable Date.

2. The consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012 is extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2012 set out in the interim report of the Company dated 20 November 2012.

3. The estimated net proceeds from the Rights Issue are based on 848,895,627 Rights Shares to be issued at the Subscription Price of HK$0.50 per Rights Share, after deduction of the related expenses of approximately HK$8,661,000 (including commission on the underwriting shares).

4. The calculation of unaudited consolidated net tangible assets of the Group attributable to the owners of the Company per Share is based on the 1,582,859,788 Shares in issue as at 30 September 2012 which has not taken into account the New Shares Issued.

5. The calculation of unaudited pro forma consolidated net tangible assets of the Group as at 30 September 2012 attributable to the owners of the Company per Share immediately after the completion of the Rights Issue is based on 2,546,686,882 Shares which represent the sum of 1,697,791,255 Shares (which has taken into account the New Shares Issued) on the Latest Practicable Date and 848,895,627 Rights Shares expected to be issued on the completion of the Rights Issue.

6. No adjustment has been made to reflect the effect on the consolidated net tangible assets of the Group of the New Shares Issued and any trading results or other transactions of the Group entered into subsequent to 30 September 2012.

B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report received from the Company's reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, in respect of the Unaudited Pro Forma Statement of Consolidated Net Tangible Assets of the Group for the purpose of incorporation in this Circular.

Grant Thornton
致同

20th Floor
Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS TO THE DIRECTORS OF UP ENERGY DEVELOPMENT GROUP LIMITED

We report on the Unaudited Pro Forma Statement of Consolidated Net Tangible Assets (the "**Unaudited Pro Forma Financial Information**") of Up Energy Development Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages II-1 to II-2 under the heading of "Unaudited Pro Forma Statement of Consolidated Net Tangible Assets of the Group" in Appendix II of the Company's circular dated 8th February, 2013 (the "**Circular**"), in connection with the rights issue of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the rights issue might have affected the financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2012 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Grant Thornton Hong Kong Limited
Certified Public Accountants
Hong Kong
Lin Ching Yee Daniel
Practising Certificate Number: P02771

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purposes of giving information with regard to the Group.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the document have been arrived at after due and careful consideration and there are no other facts not contained in the document, the omission of which would make any statement in the document misleading.

2. SHARE CAPITAL AND OPTIONS

(a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue (assuming no Convertible Notes are converted on or before the Record Date) will be, as follows:

Authorised share capital:		*HK$*
6,000,000,000	Shares as at the Latest Practicable Date	1,200,000,000
Issued and fully paid share capital:		
1,697,791,255	Shares in issue as at the Latest Practicable Date	339,558,251
848,895,627	Shares to be issued upon completion of the Rights Issue (assuming no Convertible Notes are converted on or before the Record Date)	169,779,125
2,546,686,882	Shares upon completion of the Rights Issue (assuming no Convertible Notes are converted on or before the Record Date)	509,337,376

All the existing Shares in issue are fully paid and rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares issued will, when allotted, issued and fully paid, rank pari passu in all respects with the existing Shares in issue on the date of allotment and issuance of the Rights Shares in fully-paid form. Holders of fully paid Rights Shares will be entitled to receive all future dividends and distribution which may be declared, made or paid on or after the date of allotment of the Rights Shares. Save for the Convertible Notes, the Company had no debt securities in issue as at the Latest Practicable Date.

The number of Shares in issue as at the Latest Practicable Date was 1,697,791,255. 542,931,467 Shares have been issued as a result of the conversion of certain Convertible Notes since the end of the last financial year of the Company, being 31st March, 2012, to the Latest Practicable Date. Upon the Record Date of the Rights Issue, the conversion price of the Convertible Notes will be subject to adjustments and the number of Shares comprised in the Convertible Notes will be adjusted correspondingly.

The exercise price of the Convertible Notes is adjustable based on the terms and conditions entered into on 18th January, 2011 as below:

If and for whenever the Company shall after the date hereafter offer to the Shareholders new Shares for subscription by way of rights, or shall grant to Shareholders any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than the Current Market Price (as defined below) at the date of the announcement of the terms of the offer, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of the announcement of such offer or grant (as the case may be) by the following fraction:

$(G+H)/(G+I)$ where:

G = number of Shares in issue immediately before the date of such announcement

H = number of Shares which the aggregate amount (if any) payable for the rights, options or warrants and for the total number of new Shares comprised therein would purchase at such Current Market Price (as defined below) per Share; and

I = the aggregate number of Shares offered for subscription or comprised in the options or warrants or other rights

Current Market Price = in respect of the Shares on a particular date, the average closing price per Share quoted on the daily quotation sheet of the Stock Exchange for the five consecutive trading days immediately preceding such date

The conversion price is adjusted from HK$2.0 to HK$1.6484 per share and such adjustment will become effective from the commencement of the next day following the Record Date for the offer.

Save as the Convertible Notes, the Company did not have any other outstanding options, warrants or convertible securities which confer the rights to subscribe for the Shares, or rights affecting the Shares, and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests in the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any of its associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, section 341 of the SFO (including interests or short positions which any such Director was taken or deemed to have under section 344 of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity	Number of Shares/underlying Shares held in the Company: Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Qin Jun	Beneficiary Interest/	473,566,949 (L)	1,696,119,289 (L)	2,307,186,238[1] (L)	135.89%
	Corporate Interest	—	137,500,000[2] (L)		
	Beneficiary Interest	318,566,949 (S)	1,039,125,000 (S)	1,357,691,949[1] (S)	79.97%

Abbreviations:

"L" stands for long position
"S" stands for short position

Notes:

1. Mr. Qin Jun and his wife, Ms. Wang Jue are the beneficiaries of the J&J Trust. J&J Trust is a discretionary trust found by Mr. Wang Mingquan, the father in-law of Mr. Qin Jun. Mr. Qin Jun and Ms. Wang Jue are therefore taken to be interested in the relevant Shares and short position by virtue of the SFO.

2. 137,500,000 derivatives interests out of the total interests of 2,307,186,238 Shares are beneficially owned by Up Energy Capital Limited. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun. Mr. Qin Jun is therefore taken to be interested in the relevant Shares by virtue of the SFO.

* The calculation is based on the number of Shares which each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued Shares of HK$0.20 each of the Company as at the Latest Practicable Date (i.e. 1,697,791,255 Shares).

Save as disclosed in paragraphs 2(b) and 3(a) under this section, as at the Latest Practicable Date, none of the Directors and/or chief executive of the Company had any interests or short positions in the Shares and/or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any of its associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest which any such Director was taken or deemed to have under section 344 of the SFO) or which were required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Directors' interests in contracts and assets of the Company

As at the Latest Practicable Date, there is no contract or arrangement entered into by a related party subsisting in which a Director is materially interested and significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors or proposed Directors has, directly or indirectly, any interest in any assets which have since 31 March 2012 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Directors' service contracts

(1) As at the Latest Practicable Date, none of the Directors had any continuous or fixed term service contract with the Company or any of its subsidiaries or associated companies that were entered into or amended within the Relevant Period.

(2) As at the Latest Practicable Date, none of the Directors had entered into any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more.

(3) As at the Latest Practicable Date, none of the Directors had entered into any fixed term contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

(d) Other Directors' interests

(1) Save for the Underwriting Agreement, no material contracts had been entered into by the Underwriter, in which any Director has a material personal interest.

(2) Save as disclosed in the paragraph headed "Information of the Underwriter" of this Appendix III, as at the Latest Practicable Date, none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule 1 of the Takeovers Code) in the Underwriter or any the parties acting in concert with it.

(3) As at the Latest Practicable Date, save for Mr. Qin Jun being a beneficiary of the J&J Trust, none of the Directors own shares in the Company, and accordingly they will not be entitled to participate in the Rights Issue or to accept or reject the potential mandatory general offer in the event that the Whitewash Waiver is not granted and/or approved by the Independent Shareholders.

(4) Save as disclosed in the paragraph headed "Information of the Underwriter" of this Appendix III, as at the Latest Practicable Date, no Director owned, controlled, held or had or during the Relevant Period dealt in, any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Underwriter.

(5) At no time during the Relevant Period was any member of the Group a party to any arrangement to enable the Directors and their associates to acquire benefits by means of the acquisition of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any other body corporate.

(6) None of the Directors was or will be given any benefits as compensation for loss of office or otherwise in connection with the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver.

(7) As at the Latest Practicable Date, none of the Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

(8) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Underwriting Agreement, the Rights Issue or the Whitewash Waiver or otherwise connected with the Underwriting Agreement, the Rights Issue or Whitewash Waiver.

(e) Other disclosures of interests

(1) As at the Latest Practicable Date, the Company had no interest in the shareholdings (as defined under Note 1 of paragraph 4 of Schedule I of the Takeovers Code) in the Underwriter or any the parties acting in concert with it.

(2) As at the Latest Practicable Date, none of the Company or any of its subsidiaries owned or controlled or during the Relevant Period dealt in, any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Underwriter.

(3) None of the Company, the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company, nor any adviser to the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company or any party as specified in class (2) of the definition of associate in Takeovers Code had any interest (or during the Relevant Period, dealt in) in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and the Underwriter as at the Latest Practicable Date.

(4) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Underwriter and parties acting in concert with it and other persons that the Rights Shares to be acquired by the Underwriter under the Rights Issue will be transferred, charged or pledged to any other person.

(5) As at the Latest Practicable Date and during the Relevant Period, none of the Shareholders had irrevocably committed itself to vote for or against the Rights Issue and/or the Whitewash Waiver.

(6) As at the Latest Practicable Date and during the Relevant Period, no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been borrowed or lent by the Underwriter and parties acting in concert with it.

(7) As at the Latest Practicable Date, except for the entering into of the Underwriting Agreement, no agreement, arrangement or understanding (including any compensation arrangement) existed between the Underwriter or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue and/or the Whitewash Waiver.

(8) As at the Latest Practicable Date, the Company had not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any subsidiaries of the Company were as follows:

(a) Interests in the Company

Long and short positions in the Shares and underlying Shares

Name	Capacity	Number of Ordinary Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of total interests in issued capital of the Company as at the Latest Practicable Date*	*Notes*
Cai Cheng	Corporate Interest	568,268,349 (L)	2,681,381,789 (L)	3,249,650,138 (L)	191.40%	2
Golden Energy Holdings Limited	Corporate Interest	568,268,349 (L)	2,681,381,789 (L)	3,249,650,138 (L)	191.40%	2
Synergy Investment International Company Limited	Corporate Interest	568,268,349 (L)	2,681,381,789 (L)	3,249,650,138 (L)	191.40%	2
Credit Suisse Trust Limited	Trustee	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	4
Perfect Harmony Holdings Limited	Corporate Interest	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	3
Seletar Limited	Corporate Interest	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	3
Serangoon Limited	Corporate Interest	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	3
Liu Huihua	Spouse Interest	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	5
Wang Mingquan	Founder of Trust	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	5
Wang Jue	Beneficiary Interest of Trust/Spouse Interest	137,500,000 (L) 318,566,949 (S)	2,169,686,238 (L) 1,039,125,000 (S)	2,307,186,238 (L) 1,357,691,949 (S)	135.89% 79.97%	6
Up Energy Holding Ltd.	Corporate Interest	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	3
Up Energy Group Ltd.	Beneficiary Interest	473,566,949 (L) 318,566,949 (S)	1,696,119,289 (L) 1,039,125,000 (S)	2,169,686,238 (L) 1,357,691,949 (S)	127.79% 79.97%	3
Up Energy Capital Limited	Corporate Interests	—	137,500,000 (L)	137,500,000 (L)	8.09%	7
Baosteel Group Corporation	Corporate Interest	11,747,800 (L) —	370,000,000 (L) 97,500,000 (S)	381,747,800 (L) 97,500,000 (S)	22.48% 5.74%	8
Baosteel Resources International Company Limited	Beneficiary Interest Security Interests Beneficiary Interest	11,747,800 (L) — —	— 370,000,000 (L) 97,500,000 (S)	11,747,800 (L) 370,000,000 (L) 97,500,000 (S)	0.69% 21.79% 5.74%	8
Capital Sunlight Limited	Beneficiary Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	16.43%	9

Name	Capacity	Number of Ordinary Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of total interests in issued capital of the Company as at the Latest Practicable Date*	*Notes*
ICBC International Holdings Limited	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	16.43%	*9*
ICBC International Investment Management Limited	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	16.43%	*9*
Industrial and Commercial Bank of China Limited	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	16.43%	*9*
Central Huijin Investment Ltd.	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	16.43%	*9 to 12*
CCB International Asset Management Limited	Investment Manager/ Beneficiary Interest	12,694,000 (L) 4,348,000 (L)	201,915,143 (L)	218,957,143 (L)	12.90%	*10*
CCB International (Holdings) Limited	Corporate Interest/ Beneficiary Interest	4,348,000 (L) 12,694,000 (L)	201,915,143 (L)	218,957,143 (L)	12.90%	*10*
CCB Financial Holdings Limited	Corporate Interest	17,042,000 (L)	201,915,143 (L)	218,957,143 (L)	12.90%	*10*
CCB International Group Holdings Limited	Corporate Interest	17,042,000 (L)	201,915,143 (L)	218,957,143 (L)	12.90%	*10*
China Construction Bank Corporation	Corporate Interest	16,256,000 (L)	201,915,143 (L)	218,171,143 (L)	12.85%	*10*
Anderson Dwight, Walter	Corporate Interest	144,847,322 (L)	—	144,847,322 (L)	8.53%	*13&14*
Ospraie Holding I, L.P.	Corporate Interest	144,847,322 (L)	—	144,847,322 (L)	8.53%	*13&14*
Ospraie Management, Inc.	Corporate Interest	144,847,322 (L)	—	144,847,322 (L)	8.53%	*13&14*
Ospraie Management, LLC	Investment Manager	144,847,322 (L)	—	144,847,322 (L)	8.53%	*13&14*
Ospraie Advisors L.P.	Investment Manager	88,283,039 (L)	—	88,283,039 (L)	5.20%	*13&14*
Ospraie Advisors LLC	Corporate Interest	88,283,039 (L)	—	88,283,039 (L)	5.20%	*13&14*
Ospraie Special Opportunities Master Holdings Ltd.	Beneficiary Interest	88,283,039 (L)	—	88,283,039 (L)	5.20%	*13&14*
Proper Way Profits Limited	Beneficiary Interest	—	320,028,420 (L)	320,028,420 (L)	18.85%	
Exploratory Capital Limited	Corporate Interest	300,000,000 (L)	—	300,000,000 (L)	17.67%	*15*
Wu Tao	Corporate Interest	300,000,000 (L)	—	300,000,000 (L)	17.67%	*15*

Abbreviations:

"L" stands for long position
"S" stands for short position

Notes:

1. Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms (the "**DI Forms**") when certain criteria are fulfilled and the full details of the requirements are available on the Stock Exchange's official website. When a shareholder's shareholdings in the Company changes, it is not necessary to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, substantial shareholders' latest shareholdings in the Company may be different to the shareholdings filed with the Company and the Stock Exchange. The above statements of substantial shareholders' interests are prepared based on the information in the relevant DI Forms received by the Company. The Company may not have sufficient information on the breakdown of the relevant interests and cannot verify the accuracy of information on the D1 Forms. Therefore, some substantial shareholders' interests in Shares or short positions may not have breakdown in their relevant interests.

2. Golden Energy Holdings Limited ("**Golden Energy**") was wholly owned by Synergy Investment International Company Limited ("**Synergy**"). Synergy was 100% held by Mr. Cai Cheng. Accordingly, Mr. Cai Cheng, Golden Energy and Synergy are deemed to be interested in the Shares and security interests in the Company by virtue of SFO.

3. These Shares were the same parcel of Shares held by the J&J Trust of which Mr. Wang Mingquan was the founder. Up Energy Group Ltd. is 100% wholly owned by Up Energy Holdings Limited. Up Energy Holdings Ltd. is 100% wholly owned by Perfect Harmony Holdings Limited ("**Perfect Harmony**"). Perfect Harmony is a company incorporated in Bahamas and owned by Seletar Limited ("**Seletar**") and Serangoon Limited ("**Serangoon**") as nominees in trust of Credit Suisse Trust Limited, the trustee of the J&J Trust. Accordingly, Up Energy Group Ltd., Up Energy Holdings Ltd., Seletar, Serangoon and Perfect Harmony are also deemed to be interested in the relevant Shares and short position by virtue of SFO.

4. Credit Suisse Trust Ltd., as a trustee of the J&J Trust, is deemed to be interested in the relevant Shares and the short position by virtue of SFO.

5. Mr. Wang Mingquan is the founder of the J&J Trust and Ms. Liu Huihua is the spouse of Mr. Wang Mingquan. Mr. Wang Mingquan and Ms. Lui Huihua are therefore taken to be interested in the relevant Shares and short position by virtue of the SFO.

6. Ms. Wang Jue is the beneficiary of the J&J Trust, the daughter of Mr. Wang Mingquan and the wife of Mr. Qin Jun, a Director of the Company. Ms. Wang Jue is therefore taken to be interested in the relevant Shares and short position by virtue of SFO.

7. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun, the Chairman and a Director of the Company, and therefore is concert party of the Underwriter. Accordingly, Mr. Qin Jun is deemed to be interested in the Shares and security interests in the Company by virtue of SFO.

8. Baosteel Resources International Company Limited is 99% owned by Baosteel Group Corporation. Accordingly, Baosteel Group Corporation is deemed to be interested in the Shares, security interest and short position in the Company held by Baosteel Resources International Company Limited.

9. ICBC International Holdings Limited ("**ICBC Holdings**") is wholly owned by Industrial and Commercial Bank of China Limited ("**ICBC**"). ICBC International Investment Management Limited ("**ICBC Investment**") is wholly owned by ICBC Holdings. Capital Sunlight Limited ("**Capital Sunlight**") is wholly owned by ICBC Investment. By virtue of the SFO, Capital Sunlight, ICBC Holdings, ICBC, and ICBC Investment are deemed to be interested in the relevant Shares and short position.

10. CCB International Asset Management Limited ("**CCB-IAM**") is wholly owned by CCB International (Holdings) Limited ("**CCB International**"). CCB International is wholly owned by CCB Financial Holdings Limited ("**CCB Finance**"). CCB Finance is wholly owned by CCB International Group Holdings Limited ("**CCBI Group**"). CCBI Group is wholly owned by China Construction Bank Corporation ("**CCB Corp**"). Central Huijin Investment Ltd. ("**Central Huijin**") in turn holds 57.10% in CCB Corp. By virtue of the SFO, CCB International, CCB Finance, CCBI Group, CCB Corp. and Central Huijin are deemed to be interested in the Shares which CCB-IAM was interested.

11. CCB Corp is in turn beneficially 57.10% owned by Central Huijin. By virtue of the SFO, Central Huijin is deemed to be interested in the Shares which CCB Corp was interested.

12. ICBC is in turn beneficially 35.42% owned by Central Huijin. By virtue of the SFO, Central Huijin is deemed to be interested in the Shares which ICBC was interested.

13. Ospraie Management, Inc. ("**Ospraie Management**") is owned by Mr. Dwight Walter Anderson. Ospraie Holding I, L.P. ("**Ospraie Holding**") is owned by Ospraie Management. Ospraie Management, LLC ("**Ospraie LLC**") is owned by Ospraie Holding. By virtue of the SFO, Mr. Dwight Walter Anderson, Ospraie Management, Ospraie Holding and Ospraie LLC are deemed to be interested in the same relevant Shares.

14. Ospraie Advisors LLC ("**Ospraie Advisors**") is wholly owned by Ospraie Management. Ospraie Advisors, L.P. was owned by Ospraie Advisors. Ospraie Special Opportunities Master Holdings Ltd. ("**Ospraie Special**") was owned by Ospraie Advisors L.P. By virtue of the SFO, Ospraie Advisors, Ospraie Management and Ospraie Special are deemed to be interested in the same relevant Shares.

15. Exploratory Capital Limited is 80.12% owned by Mr. Wu Tao. Accordingly, Mr. Wu Tao is deemed to be interested in the Shares and security interests in the Company by virtue of SFO.

* The calculation is based on the number of Shares which each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued Shares of HK$0.20 each of the Company as at the Latest Practicable Date (i.e. 1,697,791,255 Shares).

Save as disclosed in this paragraph, as at the Latest Practicable Date, there was no person known to the Directors or the chief executive of the Company other than Directors or the chief executive of the Company, who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests and short positions in Shares and underlying Shares in the Company

Name of Director	Capacity	Number of Shares/underlying Shares held in the Company: Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Qin Jun	Beneficiary Interest/	473,566,949 (L)	2,545,014,916[3] (L)	3,156,081,865[1] (L)	185.89%
	Corporate Interest	—	137,500,000[2] (L)		
	Beneficiary Interest	318,566,949 (S)	1,039,125,000 (S)	1,357,691,949[1] (S)	79.97%

Abbreviations:

"L" stands for long position
"S" stands for short position

Notes:

1. Mr. Qin Jun and his wife, Ms. Wang Jue are the beneficiaries of the J&J Trust. J&J Trust is a discretionary trust found by Mr. Wang Mingquan, the father-in-law of Mr. Qin Jun. Mr. Qin Jun and Ms. Wang Jue are therefore taken to be interested in the relevant Shares and short position by virtue of the SFO.

2. 137,500,000 derivatives interests out of the total interests of 3,156,081,865 Shares are beneficially owned by Up Energy Capital Limited. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun. Mr. Qin Jun is therefore taken to be interested in the relevant Shares by virtue of the SFO.

3. This includes 848,895,627 Shares which Up Energy Group Ltd. may subscribe if other shareholders do not take up their Rights Shares.

(b) Interests in the subsidiaries of the Company

As at the Latest Practicable Date, there was no person known to the Directors or the chief executive of the Company other than Directors or the chief executive of the Company, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any subsidiaries of the Company, or any options in respect of such capital.

5. DEALINGS IN SECURITIES

(a) Directors

Save as disclosed in the paragraph headed "Directors' and chief executive's interests in the Company" under section 3 headed "Disclosure of Interests" of Appendix III of this circular, none of the Directors and parties acting in concert with any of them owned, controlled, held or had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

None of the Directors or parties acting in concert with any of them had dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

As at the Latest Practicable Date and during the Relevant Period, there were no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the any of the Directors or parties acting in concert with any of them and any other person.

(b) The Underwriter and parties acting in concert with it

As at the Latest Practicable Date, the Underwriter, a substantial shareholder of the Company, and parties acting in concert with it, beneficially owns, controls or has direction over 473,566,949 Shares, representing approximately 27.89% of the total issued Shares. As at the Latest Practicable Date, the Underwriter holds Convertible Notes in the principal amount of HK$3,197,238,578 issued by the Company, which can be converted into 1,598,619,289 Shares at the current conversion price of HK$2 per Share, subject to the Terms and Conditions. As at the Latest Practicable Date, Up Energy Capital Limited, a concert party of the Underwriter, holds Convertible Notes in the principal amount of HK$275,000,000, which can be converted into 137,500,000 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions, and the other Shareholders (excluding the Underwriter and Up Energy Capital Limited) hold Convertible Notes in the principal amount of HK$1,454,508,674 in aggregate, which can be converted into 727,254,337 Shares at the current conversion price of HK$2 per share, subject to the Terms and Conditions. Save as disclosed in this paragraph, none of the Underwriter, its directors and parties acting in concert with it owned, controlled, held or had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

On 18th January, 2011, the Company issued three tranches of convertible notes, namely Tranche A, Tranche B and Tranche C convertible notes. The conversion period for Tranche A and Tranche B convertible notes commenced on 18th January, 2011 (the issue date) and 19th July, 2011 (the day following the end of six months after the issue date) respectively, and expired on 11th January, 2016 (five Business Days preceding the maturity date). The maturity date for these convertible notes is 18th January, 2016 (the Business Day falling on the fifth anniversary of their issue date). The conversion period for Tranche C convertible notes is the period commencing on 18th January, 2011 and expiring on 11th January, 2016. The maturity date for these convertible notes is 18th January, 2016.

None of the Underwriter or parties acting in concert with it has dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

As at the Latest Practicable Date and during the Relevant Period, there were no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Underwriter or parties acting in concert with it and any other person.

(c) Others

No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of associate under the Takeovers Code as at the Latest Practicable Date and during the Relevant Period.

6. INFORMATION OF THE UNDERWRITER

Set out below is the information of the Underwriter and its direct and indirect corporate shareholders as at the Latest Practicable Date:

The Underwriter is wholly-owned by Up Energy Holding Ltd., a company incorporated in the BVI with limited liability, which director is Mr. Wang Mingquan.

Up Energy Holding Ltd. is wholly-owned by Perfect Harmony Holdings Limited, a company incorporated in the Bahamas with limited liability.

Perfect Harmony Holdings Limited is owned as to 50% and 50% by Seletar Limited and Serangoon Limited as nominees in trust of Credit Suisse Trust Limited, the trustee of J&J Trust, which beneficiaries are Mr. Qin Jun and his wife, Ms. Wang Jue.

The directors of Seletar Limited and Serangoon Limited are Dominik Iwan Birri, Patrick Dat Min Cheung Chin Yan, and Ms. Serene Chew Yen Neo.

7. PARTICULARS OF THE DIRECTORS

(a) Name and address

Name	**Address**
Executive Directors	
Mr. Qin Jun	Flat 16, 32/F., Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong
Mr. Jiang Hongwen	132–401 East Village of Hupo Villa, West District of Hefei City, Anhui Province, China
Non-executive Directors	
Mr. Chau Shing Yim, David	Flat I, 15/F., Hoi Kung Court, 268 Gloucester Road, Causeway Bay, Hong Kong
Independent non-executive Directors	
Mr. Li Bao Guo	Room 301, Unit 2, Building 4, No. 3 of Bei’er Lane, of Nanchang Road, Shayibake District, Urumqi City, Xinjiang Province, China

Name	Address
Mr. Lien Jown Jing	21 Holland Park, 1321 Lien Towers, Singapore 249476, Singapore
Dr. Shen Shiao-Ming	2105 Gossamer Avenue, Redwood City, CA 94065, U.S.A., United States of America

(b) Qualification and positions held

Executive Directors

Mr. Qin Jun, aged 44, is the Chairman and Chief Executive Officer of the Company. He is responsible for overall strategic development, operation management, planning and decision making of the Group. He is one of the founders of Up Energy Investment (China) Ltd. ("**UE China**"). UE China became the subsidiary of the Group 18th January, 2011. He has over 20 years of experience in domestic or international business management and is primarily responsible for the overall strategic planning and management of UE China. Since 2003, Mr. Qin has focused on coking coal exploration and mining opportunities in Xinjiang. Mr. Qin has established a high-quality management team since he founded UE China. He also led the team to identify and acquire gradually UE China's three mines in 2003 and has formulated the overall strategy for the development of UE China. Mr. Qin Jun is the son-in-law of Mr. Wang Mingquan who is the substantial shareholder of the Company.

Mr. Qin graduated from Hefei University of Technology with a bachelor's degree in industrial management (industry accounting) in 1990. From 1999 to 2001, he served as vice president of BOE Technology Group Co., Ltd., which is engaged in research, manufacturing and sales of thin film transistor liquid crystal display (TFT-LCD) products and related business solution services to customers. From 1993 to 1999, he was the chairman and the chief executive officer of Shenzhen Sinor Solar Industry Co., Ltd., which is engaged in the manufacturing and trading of electronic products. He was also a member of the Economic and Planning Department in the Ministry of Machinery and Electronics of the PRC from 1990 to 1993. Mr. Qin obtained a Safety Certificate issued by the Bureau of Xinjiang Coal Mine Safety Supervision in 2009. Mr. Qin has 9 years of relevant experience in coal mining and exploration activities and management of coal mining companies.

Mr. Jiang Hongwen, aged 44, is the Executive Director and Chief Financial Officer of the Company, he also appointed as vice-president, chief financial officer and Director of UE China in August 2008. He is responsible for the overall management of the Group's financial operations. He graduated from Hefei University of Technology with a bachelor's degree in industrial management (industry accounting) in 1990 and the University of Science and Technology of China with a master's degree in business administration in 2005.

Mr. Jiang has been a licensed senior accountant awarded by the Senior Accounting Professional Assessment Committee of Anhui Province since 1999 and has extensive experience in financial management. He was an expert on the Senior Accountant Committee and a member of the Institute of Accounting of China. Mr. Jiang has previously held the positions of finance department manager, investment department manager, audit department manager and supervisor of investment holding company and deputy chief accountant in Anhui Garments Import and Export Corporation, a trading company in the PRC. Mr. Jiang also obtained a Safety Certificate issued by the Bureau of Xinjiang Coal Mine Safety Supervision in 2009.

Non-executive Directors

Mr. Chau Shing Yim, David, aged 49, a Non-executive Director of the Company. He has over 20 years' experience in corporate finance. He was formerly a partner of one of the big four accounting firms in Hong Kong, heading the Merger and Acquisition and Corporate Advisory Services. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales ("**ICAEW**") with the Corporate Finance Qualification granted by ICAEW, and the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Mr. Chau was an ex-committee member of the Disciplinary Panel of HKICPA. He is an Executive Director of Zhidao International (Holdings) Limited (Stock Code: 1220), and an independent non-executive director of Shandong Molong Petroleum Machinery Company Limited (Stock Code: 568), Varitronix International Limited (Stock Code: 710), Lee & Man Paper Manufacturing Limited (Stock Code: 2314), Evergrande Real Estate Group Limited (Stock Code: 3333) and Man Wah Holdings Limited (Stock Code: 1999), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Independent non-executive Directors

Mr. Li Bao Guo, aged 59, is an Independent Non-Executive Director of the Company. He has over 40 years' experience in the coal-mining industry, specialized in coal mine construction and safety issues. Mr. Li is currently a vice president of the Xinjiang Guanghui Industry Investment Group Co., Ltd. During the period from 1997 to 2010, Mr. Li was the deputy director of Xinjiang Uygur Autonomous Region Coal Geology Bureau. Prior to that, he served as the deputy manager of Xinjiang Coal Construction Engineering Company for 5 years. During the period from 1989 to 1992, Mr. Li was the vice president and vice commander of Beiquan Mine of Xinjiang Hami Coal Bureau. During the period from 1977 to 1989, he was the chief engineer of No. 1 Mine of Xinjiang Hami Coal Bureau. He graduated from Xi'an Mining Institute (renamed to Xi'an University of Science and Technology) with the professional qualification in Coal Geology in 1977. During the period from 1970 to 1974, he worked at the open pit of Xinjiang Hami Coal Bureau. Mr. Li is a professorate senior engineer, an expert in Autonomous Region Safety Production, a registered safety engineer and a registered architect in coal industry.

Mr. Lien Jown Jing, Vincent, aged 51, is an Independent Non-Executive Director of the Company. He is currently a director of Wah Hin & Company, a Singapore incorporated private investment holding company, an independent non-executive director of Focus Media Network Limited (Stock Code: 8112) which is a company listed on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and a director of The Maritime and Port Authority of Singapore. He has over 25 years of experience in the banking industry, specialized in corporate finance and capital management. Mr. Lien graduated from the University of New Brunswick with a Bachelor Degree in business administration. Mr. Lien started his career in the financial industry first in Merrill Lynch & Company as an analyst in the corporate finance division. In the past years, Mr. Lien had been working in senior positions in prestige financial institutions such as Swiss Bank Corporation and Bankers Trust & Company. In year 2000, he became the Director of Wah Hin & Company, managing the financial assets of the group. He also served as the Managing Director in the Financial Institutions & Public Sector division of ABN AMRO Bank from 2007 to 2008. Prior joining our Group, Mr. Lien was the Non-Executive Chairman of eSUN Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, from 2007 until May 2010.

Dr. Shen Shiao-Ming, aged 63, is an Independent Non-Executive Director of the Company. Dr. Shen has over 30 years legal and business experience with particular emphasis on business investment and the energy industry. Dr. Shen is currently an international legal consultant with the law firm of Mackenzie & Albritton in San Francisco, California and has previously worked for several other U.S. law firms, including Graham and James in San Francisco, and Kaye, Scholer, Fierman, Hays & Handle in New York. Dr. Shen's work involved multinational corporations in joint venture projects, energy projects and other international business transactions.

Dr. Shen has taught courses and lectured at Universities in Virginia, California, Texas and New York. Since 1998, Dr. Shen has also been a visiting professor of law at Southern Methodist University. Dr. Shen received a Master of Comparative Law Degree from Southern Methodist University School of Law, a Master of Laws Degree from Harvard Law School, and a Doctor of Juridical Science Degree from Boalt Hall School of Law at the University of California at Berkeley.

Senior Management

All the Executive directors of the Company are respectively responsible for the various aspects of the business and operation of the Group. These Executive Directors are regarded as the members of the senior management team of the Group.

8. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day on which trading in Shares took place in each of the six calendar months immediately preceding the date of the Announcement and ending on the Latest Practicable Date prior to the posting of this circular; (ii) 19th December, 2012, being the Last Trading Day; and (iii) 5th February, 2012, being the Latest Practicable Date.

Date	Closing price of the existing shares
31st July, 2012	HK$1.01
31st August, 2012	HK$0.84
28th September, 2012	HK$0.81
31st October, 2012	HK$0.80
30th November, 2012	HK$0.86
31st December, 2012	HK$1.10
Last Trading Day	HK$1.10
Latest Practicable Date	HK$0.78

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the Relevant Period were HK$1.10 on 19th December, 2012 to 7th January, 2013, and HK$0.76 on 1st February, 2013 respectively.

9. CORPORATE INFORMATION

Principal place of business in Hong Kong	Room 2704, 27/F Tower 1, Admiralty Centre 18 Harcourt Road Admiralty, Hong Kong
Company secretary	Chau Kwok Ming (Fellow member of both the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries)
Authorised representatives	Jiang Hongwen Chau Kwok Ming
Share registrar	Tricor Secretaries Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Financial adviser to the Company	CMB International Capital Limited Units 1803–4, Bank of America Tower 12 Harcourt Road, Central, Hong Kong

Legal advisers to the Company in relation to the Rights Issue	*As to Hong Kong law* Baker & McKenzie *As to Bermuda law* Conyers Dill & Pearman
Independent financial adviser to the Independent Board Committee	VC Capital Limited 28/F., The Centrium 60 Wyndham Street Central, Hong Kong
Auditors	Ernst & Young *Certified Public Accountants* 22/F., Citic Tower 1 Tim Mei Avenue Central, Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited Hang Seng Bank Limited

10. EXPERTS

The following are the qualifications of the experts who have given an opinion or advice, which is contained in this circular:

VC Capital Limited	A corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO)
Grant Thornton Hong Kong Limited	Certified Public Accountants

As at the Latest Practicable Date, none of VC Capital Limited and Grant Thornton Hong Kong Limited:

(i) had any interest, either direct or indirect, in any assets which have been, since 31st March, 2012, the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(ii) had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of VC Capital Limited and Grant Thornton Hong Kong Limited has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its respective name, in the form and context in which it appears.

11. LITIGATION

None of the member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

12. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, have been entered into by the Group and are or may be material:

(a) the Underwriting Agreement;

(b) the fourth supplemental agreement dated 18th January, 2011 entered into between the Company and Up Energy Holdings Ltd. ("**Up Energy**") for the purpose of amending certain terms of the conditional sale and purchase agreement dated 22nd July, 2010 entered into between the Company and Up Energy in relation to the proposed acquisition by the Company from Up Energy of the controlling interest in Up Energy Investment (China) Ltd. as amended by three supplemental agreements signed and dated before 31st December, 2010;

(c) the framework agreement dated 6th February, 2011 entered into by two subsidiaries of the Company, namely Up Energy (Xinjiang) Mining Ltd. (優派能源(新疆)礦業有限公司) and Up Energy (Fukang) Coal Mining Ltd (優派能源(阜康)煤業有限公司) ("**Fukang Mining**"), a non-wholly owned subsidiary of Up Energy (Hong Kong) Limited (which is in turn a subsidiary of the Company) ("**Up Energy HK**"), with Pingan Coal Mine Gas (Methane) Engineering Research Ltd. (平安煤礦瓦斯治理國家工程研究中心有限責任公司) ("**Pingan Gas**") in relation to certain consultancy services to be provided to the three mines indirectly owned by the Company at nil consideration;

(d) the sale and purchase agreement dated 12th October, 2012 entered into among (i) Up Energy Development Group Limited, (ii) Up Energy Mining Limited (a wholly-owned subsidiary of the Company) (the "**Buyer**") as buyer, (iii) Haotian Resources Group Limited in relation to the acquisition by the Buyer of the entire issued share capital in and assignment of shareholder's loan due from Champ Universe Limited at a consideration of HK$1.58 billion;

(e) the sale and purchase agreement dated 19th December, 2012 entered into among (i) Up Energy Resources Company Limited (a wholly-owned subsidiary of the Company) (the "**Buyer**") as buyer; (ii) the Company as Buyer's guarantor; (iii) Alpha Vision Energy Limited (the "**Seller**") as seller; and (iv) Kaisun Energy Group Limited ("**Kaisun**") as Seller's guarantor, in relation to the acquisition by the Buyer of the entire issued share capital of West Glory Development Limited ("**West Glory**") and all amounts of loans and indebtedness owed by West Glory and its subsidiaries to Kaisun and its subsidiaries from the Seller at a consideration of HK$394,648,800 (subject to adjustment);

(f) the amended contract of the "Contract in relation to the set-up of a Sino-Foreign Cooperative Joint Venture with Limited Liability to Explore and Develop Mines in Xinjiang, the PRC (《關於在中國新疆成立中外合作風險勘探和礦山開發有限公司的合同》)" dated 31st December, 2012 entered into by (i) Up Energy HK; (ii) Pingan Gas; and (iii) Fukang Up Energy Mining Co., Ltd. (阜康市優派能源礦業有限公司) ("**Fukang UE**"), pursuant to which, Pingan Gas has agreed to grant non-exclusive licence to use certain coal mining-related technologies to Fukang Mining, as Pingan Gas's contribution to increase the registered capital of, and additional investment in, Fukang Mining and thereby acquiring 12% of the equity interest of Fukang Mining (the "**Xinjiang Agreement**") at a consideration of RMB313,919,000;

(g) the safety production management agreement dated 31st December, 2012 entered into between Fukang Mining and Pingan Gas in relation to Pingan Gas's safety management of the construction and safety of and technical cooperation in respect of a mine owned by Fukang Mining (the "**Safety Management Agreement**") at an annual remuneration of RMB20 million during the period of construction of Fukang Mining;

(h) the supplemental agreement to the Safety Management Agreement dated 31st December, 2012 entered into between Fukang Mining and Pingan Gas; and

(i) the patent and non-patent technical implementation authorisation agreement dated 31st December, 2012 entered into between Pingan Gas and Fukang Mining, pursuant to which Pingan Gas has agreed to authorize Fukang Mining to use the patent and non-patent technologies specified under the Xinjiang Agreement at a consideration of US$2.05 million.

(j) the finance lease agreement (融資租賃合同) and the purchase agreement (委托購買協議) dated 19th December, 2012 respectively entered into between Up Energy (Fukang) Coal Mining Ltd. (優派能源(阜康)煤焦化有限公司) and Xinda Financial Leasing Ltd. (信達金融租賃有限公司) ("**Xinda Financial**") for a total purchase amount of RMB239 million (excluding certain other fees payable under the finance lease agreement).

(k) the finance lease agreement (融資租賃合同) and the purchase agreement (委托購買協議) dated 19th December, 2012 respectively entered into between Up Energy (Fukang) Coal Washing Ltd. (優派能源(阜康)煤炭洗選有限公司) and Xinda Financial for a total purchase amount of RMB47.8 million (excluding certain other fees payable under the finance lease agreement).

13. EXPENSES

The expenses in connection with the Rights Issue, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK$8.7 million and will be payable by the Company.

14. GENERAL

(a) The registered office of Up Energy Group Ltd. is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands and that of Up Energy Capital Limited is 60 Market Square, P.O. Box 364, Belize City, Belize, Central America. The correspondence address of Up Energy Group Ltd. and Up Energy Capital Limited is Room 2704, 27/F., Tower 1, Admiralty Center, 18 Harcourt Road, Hong Kong.

(b) The English text of this document shall prevail over the Chinese text for the purposes of interpretation.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. on any Business Day from the date of this circular up to and including the date of the SGM (i) at the principal place of business of the Company in Hong Kong at Room 2704, 27/F., Town 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong; (ii) on the website of the SFC at www.sfc.hk; and (iii) on the website of the Company at www.upenergy.com:

(a) this circular;

(b) the memorandum of association and bye-laws of the Company and the memorandum and articles of association of the Underwriter;

(c) the letter from the Board, the text of which is set out on pages 9 to 30 of this circular;

(d) the letter from the Independent Board Committee, the text of which is set out on page 31 of this circular;

(e) the letter from the IFA to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 32 to 58 of this circular;

(f) the report from Grant Thornton Hong Kong Limited in respect of the unaudited pro forma financial information of the Group in Appendix II of this circular;

(g) the written consents of the experts referred to under the section headed "Experts" in this appendix;

(h) the written consent of the financial adviser to the Company referred to under the section headed "Corporate Information" in this appendix;

(i) the material contracts referred to under the section headed "Material Contracts" in this appendix;

(j) the annual reports of the Company for each of the two years ended 31st March, 2011 and 2012; and

(k) the interim report of the Company for the six months ended 30th September, 2012.

Up Energy Development Group Limited

優派能源發展集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 307)

NOTICE IS HEREBY GIVEN that a special general meeting ("**Meeting**") of Up Energy Development Group Limited ("**Company**") will be held on 28th February, 2013 at 11:00 a.m. at Plaza 1–2, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, for the purposes of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution of the Company:

NOTICE OF THE SGM

"**THAT** the Whitewash Waiver (as defined in the circular dated 8th February, 2013 of the Company (the "**Circular**")) granted or to be granted by the Executive (as defined in the Circular) pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code (as defined in the Circular) waiving any obligation (either unconditionally or subject to such conditions as may be required by the Executive (as defined in the Circular)) on the part of the Underwriter (as defined in the Circular) and the parties acting in concert with it, to make a mandatory general offer arising from the underwriting of the Rights Issue for all the shares of the Company not already owned, controlled or agreed to be acquired by them pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code (as defined in the Circular) by the Executive (as defined in the Circular), be and is hereby approved, and any one or more Directors be and is/are hereby authorised to take such actions, do all such acts and things and execute all such further documents or deeds as he/she/they may, in his/her/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to or the completion of any matters relating to the Whitewash Waiver and the transactions contemplated thereunder."

By Order of the Board
Up Energy Development Group Limited
Qin Jun
Chairman

Hong Kong, 8th February, 2013

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or if he is the holder of two or more shares more than one proxy to attend and vote in his/her stead. A proxy need not be a member of the Company. **Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or any adjourned meeting should he so wish.**

* *For identification purposes only*

2. In order to be valid, the form of proxy, together with any power of attorney or other authority, if any, under which it is signed or a certified copy of that authority must be lodged with the office of the Share Registrar at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. The register of members of the Company will be closed from Wednesday, 6th March, 2013 to Thursday, 7th March, 2013, both days inclusive, during which period no transfer of shares will be effected. In order to determine entitlement to the Rights Issue, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Share Registrar, Tricor Secretaries Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by not later than 4:30 p.m. on Tuesday, 5th March, 2013.

As at the date hereof, two executive Directors of the Company are Mr. Qin Jun and Mr. Jiang Hongwen, one non-executive Director is Mr. Chau Shing Yim, David and three independent non-executive Directors of the Company are Mr. Li Bao Guo, Mr. Lien Jown Jing, Vincent and Dr. Shen Shiao-Ming.