融信資源
R R H L

Rosan Resources Holdings Limited
融信資源控股有限公司

(Incorporated in Bermuda with limited liability)
Stock code: 00578

ANNUAL REPORT 2012

Contents

Corporate Information

DIRECTORS

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

Non-Executive Director
* *Independent Non-Executive Directors*

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Li Chun On

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

AUDITOR

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

LEGAL ADVISERS AS TO HONG KONG LAW

Cheung & Choy
Room B, 5th Floor
C.T.S. House
78-83 Connaught Road Central
Hong Kong

PRINCIPAL REGISTRAR

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

REGISTRAR IN HONG KONG

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

PRINCIPAL BANKERS

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

STOCK CODE

578

WEBSITE

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

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

(A) RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000 (Re-presented)	HK$'000	HK$'000	HK$'000
Revenue					
– Continuing operations*	**188,702**	727,500	908,744	863,894	789,960
– Discontinued operations**	**361**	236,620	69,899	–	–
(Loss)/Profit before income tax from continuing operations	**(383,915)**	105,303	192,926	174,516	420,868
Income tax credit/(expense)	**1,377**	(81,155)	(100,247)	(100,062)	(108,204)
(Loss)/Profit after tax from continuing operations	**(382,538)**	24,148	92,679	74,454	312,664
Profit from discontinued operations	**5,204**	8,939	216	–	–
Non-controlling interest	**33,085**	(7,471)	(13,684)	(28,034)	(29,132)
(Loss)/Profit attributable to the owners of the Company	**(344,249)**	25,616	79,211	46,420	283,532

* Continuing operations for the last five financial years represented the production and sale of coal.

** Discontinued operations for the year ended 31 December 2012 represented coalbed methane related business (2011: Trading of purchased coal and coalbed methane related business; 2010: Trading of purchased coal).

(B) ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,375,767**	1,467,251	1,213,153	1,190,084	1,088,006
Current assets	**1,969,701**	1,651,210	1,247,873	824,215	412,147
Total assets	**3,345,468**	3,118,461	2,461,026	2,014,299	1,500,153
Current liabilities	**1,660,043**	1,057,664	882,266	893,229	582,172
Non-current liabilities	**203,314**	198,622	211,222	13,289	152,889
Total liabilities	**1,863,357**	1,256,286	1,093,488	906,518	735,061
Total equity	**1,482,111**	1,862,175	1,367,538	1,107,781	765,092
– attributable to the owners of the Company	**1,425,177**	1,772,723	1,254,387	1,012,992	698,412
– Non-controlling interest	**56,934**	89,452	113,151	94,789	66,680

I am pleased to present on behalf of the board (the "**Board**") of directors (the "**Directors**") to the shareholders the report on the results of Rosan Resources Holdings Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2012 (the "**Year**").

Market Review

During the Year, the economic growth of the People's Republic of China (the "**PRC**") has been slow down slightly comparing with the year ended 31 December 2011 (the "**Last Year**"). In addition to the uncertain economic environment of Europe and the United States, the global demand for coal consumption has also been decreased. Nevertheless, the domestic coal production capacity within the PRC has kept increasing during the Year, that further increased the pressure on the coal price during the Year.

Although the economic growth of the PRC has been slow down slightly, it is believed that the continuous development of different industries within the PRC will drive up the domestic energy demand. Therefore, the coal price is expected to keep steadily in the coming years rather than having a dramatic drop.

Business Review

During the Year, the Group was continuously facing a challenging environment. The prolonged suspension of operation of the coal mines of the Group has caused a significant drop in sales and production volume of coal during the Year. Additionally, due to the weakening of coal demand in the PRC, the general decrease in the coal price was another reason to cause the drop in the total revenue of the Group. As a result, the Group did not achieve profit for the Year.

The Group has undergone the following significant events during the Year:

(1) Disposal of subsidiaries

In January 2012, the Company had disposed its entire equity interest in certain subsidiaries, namely Popular Sky International Limited and its subsidiaries (collectively called the "**Popular Sky Group**"), for a total consideration of HK$71.2 million, as the financial results of the coalbed methane ("**CBM**") related business carried out by Popular Sky Group were considered unsatisfactory. The Group recorded a gain on the disposal of approximately HK$6.8 million.

(2) Disposal of a jointly controlled entity

In September 2012, the Company had disposed its entire equity interest (i.e. 40%) in a jointly controlled entity, namely Henan Yulong Energy Development Co., Ltd. ("**Henan Yulong**"), for a total consideration of approximately HK$93.6 million (equivalent to approximately RMB76.5 million), as the financial results of Henan Yulong was considered unsatisfactory. Henan Yulong was engaged in operation of two coal mines which were still in the stage of suspension immediate before the disposal. The Group recorded a gain on the disposal of approximately HK$16.6 million.

(3) Formation of a partnership company

In addition to the disposals of the subsidiaries and a jointly controlled entity mentioned in the precedent paragraphs, the Group has dedicated to explore other potential investment opportunities. In May 2012, Beijing Kaisheng Guanhua Investment Company Limited*（北京凱盛冠華投資有限公司）(an indirectly non-wholly-owned subsidiary of the Company) has established a partnership company, namely Beijing Shuozhan Zhongfu Investment Centre (Limited Partnership)* ("**Shuozhan Zhongfu**")（北京碩展中富投資中心（有限合夥））with an experienced strategic partner. Shuozhan Zhongfu is principally engaged in (i) investment management; (ii) assets management; and (iii) consultation service. The formation of the partnership company with an experienced strategic partner allows the Group to invest in the capital market of the PRC indirectly.

(4) Change of name of the Company

Pursuant to a special resolution of the Company passed in May 2012, the English name of the Company had been changed from "China CBM Group Limited" to "Rosan Resources Holdings Limited" and the Chinese name "融信資源控股有限公司" had been adopted as the secondary name of the Company with effect from 1 June 2012.

(5) Capital reorganisation

In October 2012, pursuant to a special resolution passed by the shareholders of the Company (the "**Shareholders**") at a special general meeting, a share consolidation of every ten shares with par value of HK$0.1 each into one new share (the "**Consolidated Share**") with par value of HK$1.0 each and a capital reduction to reduce the par value of the Consolidated Share from HK$1.0 each to HK$0.1 each by cancellation of the paid-up capital to the extent of HK$0.9 on each Consolidated Share (the "**Capital Reorganisation**"). The Capital Reorganisation gave greater flexibility to the Company to raise fund in the future when there is opportunity.

(6) Entering into acquisition agreement

On 31 December 2012, Henan Zhongyuan JiuAn Foundation & Investment Co., Ltd. (an indirectly wholly-owned subsidiary of the Company) has entered into a sale and purchase agreement (the "**Agreement**") with Henan Zhongtou Yingke Investment Company Limited*（河南中投盈科投資有限公司）in respect of the acquisition 60% of the equity interest of Zhengzhou Yingu Zhiye Company Limited*（鄭州銀谷置業有限公司）, an investment holding company incorporated in the PRC and holds several properties in Zhengzhou City of Henan Province. Upon completion of the Agreement, the Group will be able to participate in the property market of the PRC and will diversify the business segments of the Company in the future.

CONCLUSION

We expect that in the year of 2013, the global market environment will still be full of uncertainty. The coal industry will confront with both challenges and opportunities resulting from different factors, such as the fluctuation in the global coal demand and supply, changes in government policies, environmental protection issues and the availability of other energy substitutes. Moreover, the integration and restructuring of coal enterprises within the PRC has entered a new phase and only the stronger players can be continue in the industry. In addition to focusing on the Group's core business in coal mining to maintain a sustainable growth, the Group will also continue to adopt measures in order to improve the results. The Group targets to become as one of the major coal players in the industry within the Henan Province and bring value to its Shareholders.

Last but not least, on behalf of the Board, I would like to take this opportunity to express my most sincere thanks and gratitude to our Shareholders, and various parties for their continuous encouragement and support. I would also like to thank my fellow directors and all staff for their considerable contributions to the Group.

Dong Cunling
Chairman
Hong Kong, 22 March 2013

* *For identification purpose only*

OVERVIEW

During the Year, the Group was continuously facing a challenging environment. The prolonged suspension of operation of the coal mines of the Group has caused a significant drop in sales and production volume of coal during the Year. Additionally, due to the weakening of coal demand in the PRC, the general decrease in the coal price was another reason to cause the drop in the total revenue of the Group. As a result, the Group did not achieve profit for the Year.

FINANCIAL REVIEW

Revenue

The Group's total revenue from continuing operations for the Year amounted to approximately HK$188.7 million, representing a reduction of 74.1% from approximately HK$727.5 million for the Last Year. The significant reduction was mainly due to the prolonged suspension of operation of the Group's coal mines during the Year. With the continuous reduction in coal demand in the PRC during the Year, the total sales volume of coal has been dropped from 1.1 million tons ("**mt**") for the Last Year to 0.35 mt for the Year. Furthermore, the average selling price of coal has also dropped from approximately RMB532.1 per ton for the Last Year to RMB441.4 per ton for the Year.

Gross Loss

The gross loss from continuing operations during the Year was approximately HK$157.0 million, while there was gross profit achieved from continuing operations of approximately HK$348.3 million for the Last Year. The occurrence of gross loss of the Group for the Year were mainly due to (i) the reduction in revenue as explained in the precedent paragraph and (ii) ongoing expenses incurred by the coal mines despite the suspension of operation.

Net Loss

The net loss attributable to the owners of the Company for the Year was approximately HK$344.2 million, represented a turnaround from profit of approximately HK$25.6 million for the Last Year. The reason for the net loss was mainly due to the reduction in sales and production volume of coal during the Year resulting from the prolonged suspension of operation of the coal mines.

Accounts Receivable

The reason of the increase in accounts and bills receivables (as at 31 December 2012: approximately HK$521.6 million; as at 31 December 2011: approximately HK$468.3 million) and deterioration in credit period was mainly due to the fact that the largest customer of the Group, i.e. Henan Zhongfu Dianli Company Limited* ("**Zhongfu**")（河南中孚電力有限公司）, could not settle the overdue amount on time. Sales of coal to Zhongfu contributed approximately 77.5% of total revenue of the Group for the Year and the accounts receivable due from Zhongfu contributed approximately 93.1% of the total accounts receivable of the Group as at 31 December 2012.

Zhongfu, which is the largest customer of the Group over the years, is a power-generation company to produce electricity for electrolytic aluminum. However, as Zhongfu's business is also facing a down-turning period under the situation of reducing in the global resources demand, the cashflow of Zhongfu itself has then been tightened. As it has been the largest customer of the Group over the years, the Group's revenue was heavily relied on the sales made to Zhongfu. In such circumstances, with considering the long term strategic co-operation relationship established with Zhongfu, the Group allowed a longer settlement period for Zhongfu. Moreover, the holding company of Zhongfu is a company listed in Shanghai Stock Exchange ("**SSE**"), i.e. Henan Zhongfu Industrial Co., Ltd*（河南中孚實業股份有限公司）(SSE stock code: 600595) with market capitalization of approximately RMB 7.5 billion as at 31 December 2012, which would have strong financial back up to Zhongfu. The Group therefore has no doubt on the recoverability of the amounts due from Zhongfu.

Having considered (a) the long-term strategic business relationship established with Zhongfu; (b) the majority of the accounts receivable balance due from Zhongfu was outstanding less than one year; (c) no bad debts arose in the historical record; and (d) the possible financial support from Zhongfu's holding company, the Group considered that it was not necessary to impair the Zhongfu's outstanding balance as at 31 December 2012. The Company will constantly and closely monitor on the collectability of the amounts due from Zhongfu.

PROSPECT

The strategy of the Group continues to focus on the core business sector, i.e. production and sale of coal. With the resumption of all the coal mines of the Group before the date of this report, it is expected that the result for the next year can be improved. Meanwhile, the Group will continue to look for appropriate opportunities to expand in the coal mining industry. Moreover, the Group may also try to seek other potential investment opportunities in an effort to add value to the Company and its Shareholders as a whole.

ESTIMATED COAL RESOURCES OF THE COAL MINES OF THE GROUP

The following table summarized the estimated coal resources of the coal mines of the Group as at 31 December 2012 and 2011:

		As at 31 December 2012 mt	As at 31 December 2011 mt
Coal mines of the Group			
(i)	Xiaohe Coal Mine No.1	**7.4**	7.5
(ii)	Xiaohe Coal Mine No.2	**1.8**	1.9
(iii)	Xiaohe Coal Mine No.3	**1.8**	1.8
(iv)	Xiangyang Coal Mine	**15.4**	15.4
(v)	Xingyun Coal Mine	**3.9**	3.9
		30.3	30.5

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, the net asset value of the Group was approximately HK$1,482.1 million (as at 31 December 2011: approximately HK$1,862.2 million) and the total cash and bank balance (included pledged bank deposit) was approximately HK$952.1 million (as at 31 December 2011: approximately HK$804.8 million). As at 31 December 2012, the Group had net current assets of approximately HK$309.7 million (as at 31 December 2011: approximately HK$593.5 million) and its current ratio decreased from 1.6 times to 1.2 times as at 31 December 2012.

As at 31 December 2012, the Group's total accounts receivable amounted to approximately HK$265.9 million (as at 31 December 2011: approximately HK$302.4 million) and certain accounts receivable were pledged to secure bank loans of the Group. Subsequent to 31 December 2012 and up to the date of this report, accounts receivable amounted to approximately HK$46.5 million has been settled.

As at 31 December 2012, bank deposits amounted to approximately HK$318.8 million (as at 31 December 2011: approximately HK$106.9 million) were pledged and not available for the operation or repayment of debts of the Group. Cash and cash equivalents which was not pledged amounted to approximately HK$633.3 million (as at 31 December 2011: approximately HK$697.9 million).

As at 31 December 2012, the Group's total bank loan amounted to approximately HK$709.3 million (as at 31 December 2011: approximately HK$593.4 million).

As at 31 December 2012, the Group's bills payable amounted to approximately HK$554.7 million (as at 31 December 2011: approximately HK$111.9 million) were secured by the pledge of the Group's time deposits and of approximately HK$242.7 million (as at 31 December 2011: approximately HK$24.7 million) were also guaranteed by independent third parties. No bills payable were guaranteed by a related company (as at 31 December 2011: approximately HK$9.9 million) or co-guaranteed by an independent third party and certain mining rights (as at 31 December 2011: approximately HK$61.8 million).

The Group's gearing ratio (as a ratio calculated by (a) the sum of bank loans and liability components of the convertible bonds; divided by (b) the net assets of the Group) was 60.3% (as at 31 December 2011: 41.3%).

DIVIDEND

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

SAFETY PRODUCTION AND ENVIRONMENT PROTECTION

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

* For identification purpose only

Name	Age	Position held	Number of years of service	Business experience
Dong Cunling	51	Executive Director, Chairman	1	Joined the Group in December 2011 as an executive Director. He holds a professional diploma in Chinese Language of Henan University, the PRC. Mr. Dong was a college teacher in Dengfeng Municipal of Henan Province, the PRC. Mr. Dong joined Henan Jinfeng Coal Industrial Group Company Limited ("**Jinfeng**"), i.e. a subsidiary of the Company, since 2003. He held several positions in Jinfeng and he is currently a director of Jinfeng. He has extensive experience in the management of coal mines.
Li Chun On	39	Executive Director, Chief Financial Officer, Company Secretary	7	Joined the Group in September 2006 and is currently an authorised representative of the Company. He graduated from the Hong Kong Polytechnic University. Mr. Li has more than 15 years of experience in accounting and financial management. Mr. Li is an associate member of the Hong Kong Institute of Certified Public Accountants, and a fellow member of The Association of Chartered Certified Accountants, United Kingdom.
Wu Jiahong	46	Executive Director	7	Joined the Group in 2006. He holds a Bachelor of Art diploma from the Beijing Foreign Studies University of Beijing, the PRC and a Master of Business Administration degree from the Georgetown University in the United States. He has over 15 years of experience in corporate finance and strategic management. He is responsible for the management and financial operation of the Group.

Name	Age	Position held	Number of years of service	Business experience
Yang Hua	35	Executive Director, Deputy Chairman, Chief Executive Officer	3	Joined the Group in June 2010 as an executive Director and is currently an authorised representative of the Company. He graduated with Master's Degree from the Business School of National University of Singapore and with a Bachelor's Degree from Beijing Foreign Studies University. After graduation from the university in Beijing, he has joined a state-owned enterprise and involved in energy trading, economic environment analysis on global energy market and risk control. He has also acted as a trader in PRC for international commodities futures contracts and derivative products. Mr. Yang has extensive experience in financial market and risk management. He also has the qualification to deal with the futures contract in PRC.
Zhou Guangwen	44	Executive Director	1	Joined the Group in February 2012. He graduated with Doctor of Philosophy from Peking University of the PRC. Mr. Zhou has extensive working experience as a senior management in certain local bank and security company in the PRC. He is currently the president of Ginkgo Capital Management Co., Limited which specializes in asset management and investment banking. Mr. Zhou is one of the first batch of the people in the PRC to engage in securities industry.

Name	Age	Position held	Number of years of service	Business experience
Li Chunyan	48	Non-Executive Director	1	Joined the Group in December 2011 as a non-executive Director. He is currently a registered lawyer at Henan Shi Ji Tong Law Firm (河南世紀通律師事務所) in the PRC and is also a certified public accountant, certified public valuer and certified tax agent in the PRC. Mr. Li has acted as a legal adviser to the Henan Provincial People's Hospital, the Henan TV Station and certain listed companies in the PRC. Mr. Li was an independent non-executive director in three PRC listed companies during the period from 2002 to 2008. He was an independent non-executive director of Henan Pinggao Electric Co., Ltd which listed on the Shanghai Stock Exchange of the PRC since March 2008. Mr. Li is an independent non-executive director of Zhongyu Gas Holdings Limited (stock code: 3633), which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since October 2010.
Chen Renbao	50	Independent Non-Executive Director	1	Joined the Group in December 2011. He received his Bachelor of Arts in Economics from Anhui University, the PRC, in 1985. After graduated from Anhui University, Dr. Chen received his Master of Arts in Demography in 1989, Ph.D. in insurance and Ph.D. in Demography from the University of Pennsylvania, the United States, in 1993. Dr. Chen is an independent non-executive director of Guangdong Midea Electric Appliances Co., Ltd. which is listed in Shenzhen Stock Exchange of the PRC. He also acted as a director of US Keywise Capital Management and consultant for the NUS Endowment Fund. He currently acts as a consultant in a number of PRC and overseas companies to provide financial and risk management consultation and training services to those companies.

Name	Age	Position held	Number of years of service	Business experience
Li Daomin	70	Independent Non-Executive Director	1	Joined the Group in February 2012. He holds a bachelor degree in Law from Zhongnan University of Economics and Law (formerly known as Hubei University) of the PRC. Mr. Li has been a secretary, deputy dean and dean in certain courts in Henan Province, the PRC, between 1984 and 2008. He is currently the president of Private Economy Research Institute in Henan Province.
Ma Yueyong	48	Independent Non-Executive Director	1	Joined the Group in December 2011. He holds a Bachelor Degree in Accounting from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance and Economics), the PRC. He has also achieved postgraduate qualification in Accounting from Shanghai University of Finance and Economics, the PRC. Mr. Ma was appointed as an executive director and an independent non-executive director in three PRC listed companies during the period from 1998 to 2004. Mr. Ma is currently an independent non-executive director of Henan Linzhou Heavy Machinery Co., Ltd. since April 2009 which is listed on Shenzhen Stock Exchange of the PRC. He is a certified public accountant in Reanda Certified Public Accountant Co., Ltd. Henan Branch in the PRC since April 2011. Mr. Ma is a financial controller of Zhengzhou New Dafang Heavy Industry Science & Technology Co., Ltd since January 2013.

CORPORATE GOVERNANCE PRINCIPLES

The Board is committed to establishing and maintaining high standards of corporate governance. The Board has adopted the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012, the "**former Code**"), which was revised and renamed as the Corporate Governance Code (the "**CG Code**") on 1 April 2012, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the code of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2012, the Company has complied with the former Code and CG Code, except for the deviations as set out below.

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

Code provision A.6.7 of the CG Code requires that the independent non-executive directors and the non-executive directors should attend general meetings. However, the independent non-executive Director, Mr. Li Daomin was unable to attend the special general meetings of the Company held in Hong Kong on 29 February 2012 and 10 October 2012 and the annual general meeting of the Company held on 31 May 2012 as he was absent from Hong Kong.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

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

The brief biographical details of the Directors and the relationship among them are set out in the section headed "Biographical Details in Respect of the Directors' in the 2012 annual report of the Company, of which this report forms part.

RESPONSIBILITY OF BOARD AND MANAGEMENT

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

ATTENDANCE OF THE BOARD AND BOARD COMMITTEES

The Board meets regularly during the Year and the Directors have made active contribution to the affairs of the Group. The following table shows the attendance of all the Directors at the meetings held during the Year:

	Attendance/Number of Meetings				
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Executive Directors					
Mr. Dong Cunling	5/5	–	–	–	1/3
Mr. Li Chun On	5/5	–	–	–	3/3
Mr. Wu Jiahong	2/5	–	–	–	1/3
Mr. Yang Hua	5/5	–	–	–	2/3
Mr. Zhou Guangwen *(Note)*	3/4	–	–	–	0/3
Non-Executive Director					
Mr. Li Chunyan	1/5	–	–	–	1/3
INEDs					
Dr. Chen Renbao	4/5	1/2	1/1	1/1	2/3
Mr. Li Daomin *(Note)*	2/4	2/2	1/1	1/1	0/3
Mr. Ma Yueyong	5/5	2/2	1/1	1/1	1/3

Note: Mr. Zhou Guangwen has been appointed as an executive Director and Mr. Li Daomin has been appointed as an independent non-executive Director with effect from 8 February 2012.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

INEDS

One-third of the members of the Board consist of INEDs and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence for the Year pursuant to Rule 3.13 of the Listing Rules and the Company considers all INEDs to be independent during the Year.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

The procedures for Shareholders to propose a person for election as a Director are available and accessible on the Company's website at http://www.irasia.com/listco/hk/rrhl.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three INEDs, namely Dr. Chen Renbao (as chairman), Mr. Li Daomin and Mr. Ma Yueyong. The terms of reference of the Remuneration Committee is available on the websites of the Stock Exchange and the Company. During the Year, the Remuneration Committee held one meeting. The attendance record of the committee is set out in the table on page 15 of the annual report.

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

NOMINATION COMMITTEE

The Nomination Committee comprises three INEDs, namely Dr. Chen Renbao, Mr. Li Daomin and Mr. Ma Yueyong (as chairman). The terms of reference of the Nomination Committee is available on the websites of the Stock Exchange and the Company. During the Year, the Nomination Committee held one meeting. The attendance record of the committee is set out in the table on page 15 of the annual report.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of INEDs and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of director and succession planning for directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption by the Board, where appropriate.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs, namely Dr. Chen Renbao, Mr. Li Daomin and Mr. Ma Yueyong (as chairman). The terms of reference of the Audit Committee is available on the websites of the Stock Exchange and the Company. On 27 March 2012, the Board has resolved that the responsibility to perform the corporate governance functions as set out in the CG Code be delegated to the Audit Committee. The principle role and functions of the Audit Committee are to review and provide supervision over the Group's financial reporting process and internal controls. The Audit Committee also serves as a channel of communication between the Board and the external auditor.

During the Year, the Audit Committee held two meetings. The attendance record of the committee members at these meetings are set out in the table on page 15 of the annual report. The work performed by the Audit Committee during the Year included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2012 and 31 December 2011, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2012 and recommended such financial statements to the Board for approval and also the effectiveness of the internal control practices of the Group.

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

To comply with the new requirements under the CG Code in respect of responsibilities for performing the corporate governance duties, the Board has delegated its responsibilities to the Audit Committee to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; to review and monitor the training and continuous professional development of Directors; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct applicable to employees and Directors; and to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CG Code.

AUDITOR'S REMUNERATION

During the Year, the remuneration paid or payable to the auditor of the Company, BDO Limited is set out below:

Services rendered	**Fee paid/payable** HK$'000
Audit services	1,050
Non-audit services (Interim financial review and other services)	480

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Company's accounts. The financial statements for the year ended 31 December 2012 have been prepared in accordance with Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosure requirements of the Listing Rules and other applicable regulatory requirements.

The reporting responsibilities of the external auditor, BDO Limited, are set out in the Independent Auditor's Report on pages 27 to 28.

DIRECTORS' AND OFFICERS' LIABILITY

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

All members of the Board have participated in continuous professional development through internal training provided by the Company on 27 March 2012 on various areas including, but not limited to, the connected transaction, the Model Code and the duties and responsibilities of Directors, so as to ensure that they have appropriate understanding of the business and operations of the Group as well as fully aware of the responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

COMPANY SECRETARY

As at 31 December 2012, the Company Secretary of the Company, Mr. Li Chun On ("**Mr. Li**"), fulfilled the requirement under Rules 3.28 and 3.29 of the Listing Rules. He is one of the Directors and has day-to-day knowledge of the Company's affairs. Mr. Li reports to the Chairman and is responsible for advising the Board on governance matters. The biographical details of the Company Secretary, including his qualifications, are set out in the "Biographical Details in Respect of the Directors" section on page 10. For the Year under review, Mr. Li has taken over 15 hours of relevant professional training.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's internal control system and reviewing its effectiveness. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. During the Year, the Board has reviewed the effectiveness of the existing system of internal controls with a view to safeguard the Shareholders' interest and the Group's assets.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board recognises the importance of good communication with Shareholders. The Board resolved that to adopt a shareholders' communication policy on 27 March 2012 to set out the Company's procedure in providing the Shareholders with prompt and equal access to information about the Company, in order to enable the Shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The general meetings of the Company provide a forum for exchange of views between the Shareholders and the Board. The Chairman, the Directors and senior management of the Company and where applicable, the INEDs, are available to answer questions at the Shareholders' meeting.

Separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual directors. Details of poll voting procedures are included in all circulars to Shareholders which call for a general meeting and are explained during proceedings of the meeting.

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

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

SHAREHOLDERS' RIGHTS

Procedure for Shareholders to convene a special general meeting

Shareholders can submit a requisition to convene a special general meeting pursuant to Section 74 of the Companies Act 1981 of Bermuda (the "**Act**"). The number of Shareholders necessary for a requisition shall be representing not less than one-tenth of the Company's paid-up capital as at the date of requisition having the right to vote at the general meeting.

The written requisition must:

– state the purposes of the special general meeting;

– be signed by all the requisitionists (may consist of one or several documents in like form each signed by one or more requisitionists); and

– be deposited at the Company's office in Hong Kong for the attention of the Company Secretary.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a special general meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, any themselves convene a special general meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedure for Shareholders to put forward proposals at general meetings

Shareholders can submit a requisition to move a resolution at an annual general meeting pursuant to Section 79 of the Act. The number of Shareholders necessary for a requisition shall be:

– representing not less than one-twentieth of the total voting rights of all Shareholders having at the date of requisition a right to vote at the meeting to which the requisition relates; or

– not less than 100 Shareholders.

The written requisition must:

– state the resolution, with a statement not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the meeting;

– be signed by all the requisitionists (may consist of one or several documents in like form each singed by one or more requisitionists);

– be deposited at the Company's office in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in case of a requisition requiring notice of a resolution and not less than one week before the meeting in case of any other requisition; and

– be deposited with a sum reasonably sufficient to meet the Company's expenses in giving notice of the resolution and circulating the statements of the proposed resolution to all Shareholders in accordance with the requirements under the applicable laws and rules.

Enquires to the Board

The Company's website provides email address and telephone to enable the Shareholders to make any enquiries and concerns to the Board. Shareholders may send their enquiries by post or by email to the attention of the Company Secretary who will direct the enquiries to the Board for handling.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the Year.

The Board are pleased to present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Group are production and sale of coal in the PRC. The Group also engaged in trading of purchased coal and CBM related business, which had already been disposed of in December 2011 and March 2012 respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Company and of the Group at that date are set out on pages 29 to 114 of the annual report.

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

FIVE YEARS FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEME

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities on the Stock Exchange during the Year.

PRE-EMPTIVE RIGHTS

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

EXCHANGE RISK EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group has a total of approximately 2,500 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical insurance and pension funds. A share option scheme was adopted by the Group on 20 October 2004 to enable the Directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the CG Code as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three of the INEDs of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 December 2012 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements and those adequate disclosures have been made.

CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 14 to 20 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the Year.

RESERVES

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

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2012 was approximately HK$491.0 million (as at 31 December 2011: Nil). In addition, the Company's share premium account as at 31 December 2012, in the amount of approximately HK$235.3 million, can be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year under review, sales to the Group's five largest customers accounted for approximately 100% of the total revenue for the Year. Purchases of coal from the Group's five largest suppliers accounted for 10.7% of the total cost of inventories sold for the year and purchases from the largest supplier included therein amounted to 10.4%.

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

DIRECTORS

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

Executive Directors:

Mr. Dong Cunling *(Chairman)*
Mr. Yang Hua *(Chief Executive Officer)*
Mr. Li Chun On
Mr. Wu Jiahong
Mr. Zhou Guangwen (appointed on 8 February 2012)

Non-Executive Director:

Mr. Li Chunyan

INEDs:

Dr. Chen Renbao
Mr. Li Daomin (appointed on 8 February 2012)
Mr. Ma Yueyong

The Company has received annual confirmations of independence from all INEDs and as at the date of this annual report still considers them to be independent.

In accordance with bye-law 111 of the Company's Bye-laws, Mr. Yang Hua, Dr. Chen Renbao and Mr. Ma Yueyong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

No Director being proposed for re-election at the forthcoming AGM of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 44 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

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

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures and Ordinance (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Directors	Nature of interest	Number of shares	Number of underlying shares	Approximate percentage of shareholding
Mr. Dong Cunling	Personal interest	540,000	–	0.08%
Mr. Li	Personal interest	–	127,500 *(Note)*	0.02%
Mr. Wu Jiahong ("**Mr. Wu**")	Personal interest	15,110,625	608,175 *(Note)*	2.21%
Mr. Yang Hua	Personal interest	65,978,571	–	9.26%

Note: Mr. Wu is interested as a grantee of share options to subscribe for 608,175 shares and Mr. Li is interested as a grantee of share options to subscribe for 127,500 shares of the Company under the share option scheme as disclosed in note 37 to the financial statements.

Save as disclosed above, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange as at 31 December 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to the Directors or chief executive of the Company, as at 31 December 2012, the person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

(a) Long positions in the shares

Name of Shareholders	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Wang Chao *(Note 1)*	Beneficial owner	141,400,000	19.84%
Asia Mark Development Limited *(Note 2)*	Beneficial owner	100,000,000	14.03%
Mr. Kwong Ying Hou *(Note 2)*	Interests in controlled corporation	100,000,000	14.03%
Victory Investment China Group Limited *(Note 3)*	Beneficial owner	60,000,000	8.42%
Dr. Wang Ruiyun *(Note 3)*	Interests in controlled corporation	60,000,000	8.42%

(b) Long positions in underlying shares – Derivatives

Name of Shareholders	Capacity	Number of underlying shares	Approximate percentage of shareholding
Ringfit Investment Group Limited *(Note 4)*	Beneficial owner	200,000,000	28.06%

Notes:

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

(2) Asia Mark Development Limited is beneficially and wholly owned by Mr. Kwong Ying Hou. He is independent and not related to the Board or management of the Company.

(3) Victory Investment China Group Limited is beneficially and wholly owned by Dr. Wang Ruiyun. He has resigned as a non-executive Director and a co-chairman of the Company in November 2011.

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and note 37 to the financial statements, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PENSION SCHEME AND COSTS

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

In the opinion of the Board, the Group had no significant obligations for long service payments to its employee pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2012.

CONNECTED TRANSACTION

On 13 January 2012, the Company disposed Popular Sky Group to Dragon Rich Resources Limited ("**Dragon Rich**"), at a total consideration of HK$71.2 million, as the financial results of the CBM related business carried out by the Popular Sky Group were considered unsatisfactory. Dragon Rich is a company incorporated in the British Virgin Islands which is beneficially owned as to 60% by Mr. Wu and as to 40% by Mr. Xu Lidi ("**Mr. Xu**") respectively. Mr. Wu is the executive Director and Mr. Xu is a former director of the Company and existing director of a subsidiary of the Group and both Mr. Wu and Mr. Xu are the directors of Dragon Rich. Thus, Dragon Rich is considered to be a connected party to the Group and the disposal was considered as a connected transaction.

Except as disclosed above and in note 44(g) to the financial statements, none of the "Related Party Transactions" arose in this Year as disclosed in note 44 to the financial statements constituted connected transaction or continuing connected transaction under the Listing Rules. To the extent of the above "Related Party Transactions" constituted connected transaction as defined in the Listing Rules, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules during the Year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

DONATIONS

Charitable and other donations made by the Group during the year ended 31 December 2012 amounted to approximately HK$3.5 million.

AUDITORS

The financial statements since the year ended 31 December 2004 were audited by Grant Thornton ("**GTHK**"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("**BDO**") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditor of the Company effective from 26 November 2010. The financial statements for the years ended 31 December 2010, 2011 and 2012 were audited by BDO.

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

For and on behalf of the Board

Dong Cunling
Chairman

Hong Kong
22 March 2013

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To the shareholders of Rosan Resources Holdings Limited 融信資源控股有限公司
(Formerly known as China CBM Group Limited 中國煤層氣集團有限公司)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Rosan Resources Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 29 to 114, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 22 March 2013

	Notes	2012 HK$'000	2011 HK$'000 (Re-presented)
Continuing operations			
Revenue	5	**188,702**	727,500
Cost of sales		**(345,751)**	(379,229)
Gross (loss)/profit		**(157,049)**	348,271
Other income	5	**28,207**	30,080
Selling and distribution expenses		**(6,655)**	(13,327)
Administrative expenses		**(122,304)**	(152,505)
Other operating expenses		**(55,692)**	(41,868)
Finance costs	7	**(90,687)**	(57,457)
Share of profits/(losses) of associates	22	**5,668**	(27)
Share of losses of jointly controlled entities	23	**(1,977)**	(7,864)
Gain on disposal of a jointly controlled entity	23	**16,574**	–
(Loss)/Profit before income tax	8	**(383,915)**	105,303
Income tax credit/(expense)	9	**1,377**	(81,155)
(Loss)/Profit for the year from continuing operations		**(382,538)**	24,148
Discontinued operations			
Profit for the year from discontinued operations	10	**5,204**	8,939
(Loss)/Profit for the year		**(377,334)**	33,087
(Loss)/Profit for the year attributable to:			
Owners of the Company	11	**(344,249)**	25,616
Non-controlling interest		**(33,085)**	7,471
		(377,334)	33,087
(Loss)/Profit for the year attributable to the owners of the Company:			
Continuing operations		**(349,453)**	16,677
Discontinued operations	10	**5,204**	8,939
		(344,249)	25,616

	Notes	2012	2011 (Restated)
(Loss)/Earnings per share for (loss)/profit from continuing and discontinued operations attributable to the owners of the Company during the year	12		
– Basic (HK cents)		**(48.304)**	4.197
– Diluted (HK cents)		**(48.304)**	4.195
(Loss)/Earnings per share for (loss)/profit from continuing operations attributable to the owners of the Company during the year	12		
– Basic (HK cents)		**(49.034)**	2.732
– Diluted (HK cents)		**(49.034)**	2.731

	2012 HK$'000	2011 HK$'000 (Re-presented)
(Loss)/Profit for the year	**(377,334)**	33,087
Other comprehensive income for the year		
Exchange gain/(loss) on translation of financial statements of foreign operations		
– subsidiaries	**5,041**	71,162
– jointly controlled entities	**(775)**	3,954
– associates	**2,168**	15
Release of exchange fluctuation reserve upon disposal of subsidiaries	**(2,483)**	114
Release of exchange fluctuation reserve upon disposal of a jointly controlled entity	**(6,681)**	–
Total comprehensive income for the year	**(380,064)**	108,332
Total comprehensive income attributable to:		
Owners of the Company	**(347,546)**	94,945
Non-controlling interest	**(32,518)**	13,387
	(380,064)	108,332
Total comprehensive income attributable to the owners of the Company:		
Continuing operations	**(349,575)**	82,718
Discontinued operations	**2,029**	12,227
	(347,546)	94,945

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	**389,061**	386,826
Prepaid lease payments	*17*	**130**	438
Goodwill	*19*	**135,334**	182,761
Mining rights	*20*	**646,653**	646,593
Other intangible assets	*21*	**293**	867
Interests in associates	*22*	**129,514**	591
Interest in a jointly controlled entity	*23*	**6,340**	86,615
Deposits paid for potential investments	*24*	**68,442**	162,560
		1,375,767	1,467,251
Current assets			
Inventories	*25*	**14,322**	14,278
Accounts and bills receivables	*26*	**521,637**	468,277
Prepayments, deposits and other receivables	*27*	**446,258**	355,578
Tax recoverable		**10,508**	8,249
Available-for-sale financial assets	*28*	**24,888**	–
Pledged bank deposits	*29(a)*	**318,815**	106,926
Cash and cash equivalents	*29(b)*	**633,273**	697,902
		1,969,701	1,651,210
Current liabilities			
Accounts and bills payables	*30*	**569,764**	121,487
Other payables and accruals	*31*	**306,857**	273,928
Provision for reclamation obligations	*32*	**74,021**	68,027
Provision for tax		**93**	846
Bank loans	*33*	**709,308**	593,376
		1,660,043	1,057,664
Net current assets		**309,658**	593,546
Total assets less current liabilities		**1,685,425**	2,060,797

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Convertible bonds	*34*	**184,050**	176,253
Deferred tax liabilities	*35*	**19,264**	22,369
		203,314	198,622
Net assets		**1,482,111**	1,862,175
EQUITY			
Share capital	*36*	**71,267**	712,674
Reserves	*38(a)*	**1,353,910**	1,060,049
Equity attributable to the owners of the Company		**1,425,177**	1,772,723
Non-controlling interest		**56,934**	89,452
Total equity		**1,482,111**	1,862,175

Dong Cunling
Director

Yang Hua
Director

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*18*	**1,012,333**	1,010,627
Current assets			
Prepayments, deposits and other receivables		**225**	706
Cash and cash equivalents		**3,733**	4,322
		3,958	5,028
Current liabilities			
Other payables and accruals		**6,362**	4,057
Net current (liabilities)/assets		**(2,404)**	971
Total assets less current liabilities		**1,009,929**	1,011,598
Non-current liabilities			
Convertible bonds	*34*	**184,050**	176,253
Net assets		**825,879**	835,345
EQUITY			
Share capital	*36*	**71,267**	712,674
Reserves	*38(b)*	**754,612**	122,671
Total equity		**825,879**	835,345

Dong Cunling
Director

Yang Hua
Director

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

	Attributable to the owners of the Company												Non-controlling interest	Total
	Share capital	Share premium* *(Note 38(a))*	Equity component of convertible bonds*	Share option reserve*	Capital redemption reserve* *(Note 38(a))*	Other reserve* *(Note 38(a))*	Contributed surplus* *(Note 38(a))*	Exchange fluctuation reserve*	Capital reserve* *(Note 38(a))*	Statutory reserve fund* *(Note 38(a))*	Retained profits*	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2012	712,674	235,334	24,351	3,847	50	67,948	8,282	168,064	27,442	109,270	415,461	1,772,723	89,452	1,862,175
Capital Reorganisation *(note 36(c))*	(641,407)	-	-	-	-	-	641,407	-	-	-	-	-	-	-
Transfer from contributed surplus to accumulated losses of the Company *(note 38(b))*	-	-	-	-	-	-	(158,018)	-	-	-	158,018	-	-	-
Transactions with owners	(641,407)	-	-	-	-	-	483,389	-	-	-	158,018	-	-	-
Transfer to statutory and other reserves	-	-	-	-	-	4,596	-	-	-	25,187	(29,783)	-	-	-
Loss for the year	-	-	-	-	-	-	-	-	-	-	(344,249)	(344,249)	(33,085)	(377,334)
Other comprehensive income for the year														
– Exchange gain/(loss) on translation of financial statements of foreign operations														
– subsidiaries	-	-	-	-	-	-	-	4,703	-	-	-	4,703	338	5,041
– jointly controlled entities	-	-	-	-	-	-	-	(787)	-	-	-	(787)	12	(775)
– associates	-	-	-	-	-	-	-	1,951	-	-	-	1,951	217	2,168
– Release of exchange fluctuation reserve upon disposal of subsidiaries *(note 40(b))*	-	-	-	-	-	-	-	(2,483)	-	-	-	(2,483)	-	(2,483)
– Release of exchange fluctuation reserve upon disposal of a jointly controlled entity *(note 23)*	-	-	-	-	-	-	-	(6,681)	-	-	-	(6,681)	-	(6,681)
Total comprehensive income for the year	-	-	-	-	-	-	-	(3,297)	-	-	(344,249)	(347,546)	(32,518)	(380,064)
At 31 December 2012	71,267	235,334	24,351	3,847	50	72,544	491,671	164,767	27,442	134,457	199,447	1,425,177	56,934	1,482,111

* The aggregate amount of these balances of approximately HK$1,353.9 million (2011: approximately HK$1,060.0 million) represents the reserves in the consolidated statement of financial position.

	Notes	2012 HK$'000	2011 HK$'000 (Re-presented)
Cash flows from operating activities of continuing and discontinued operations			
(Loss)/Profit before income tax from			
continuing operations		**(383,915)**	105,303
discontinued operations	*10*	**5,204**	9,228
		(378,711)	114,531
Adjustments for:			
Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	*39*	**–**	(23,392)
Share of (profits)/losses of associates	*22*	**(5,668)**	27
Share of losses of jointly controlled entities	*23*	**1,977**	7,864
Interest expense		**65,891**	46,941
Amortisation of mining rights	*8*	**4,188**	12,162
Amortisation of prepaid lease payments	*8*	**308**	302
Amortisation of intangible assets	*8*	**574**	369
Impairment loss on goodwill	*8*	**47,427**	24,635
Interest income		**(22,256)**	(20,932)
Depreciation		**35,596**	31,657
Loss on disposals of property, plant and equipment	*8, 10*	**1,144**	246
Gain on disposals of financial assets at fair value through profit or loss	*5*	**(829)**	(94)
Gain on disposals of subsidiaries	*10*	**(6,785)**	(5,523)
Gain on disposal of a jointly controlled entity	*23*	**(16,574)**	–
Provision for impairment on deposits paid	*8*	**–**	3,627
Write off of other receivables	*10*	**–**	3,875
Provision for financial guarantee contracts issued	*8*	**–**	5,610
Amortisation of financial guarantee contracts issued	*5*	**(1,656)**	(3,985)
Operating (loss)/profit before working capital changes		**(275,374)**	197,920
Decrease in inventories		**51**	1,151
(Increase)/Decrease in accounts and bills receivables		**(55,011)**	318,034
Decrease/(Increase) in prepayments, deposits and other receivables		**84,046**	(104,072)
Increase in accounts and bills payables		**444,903**	14,846
Increase in other payables and accruals		**62,636**	71,326
Increase in provision for reclamation obligations		**5,488**	32,102
(Increase)/Decrease in financial assets at fair value through profit or loss		**(11,408)**	24,279
Cash generated from operations		**255,331**	555,586
Interest received		**17,810**	20,932
Interest paid		**(58,094)**	(42,356)
Income tax paid		**(4,843)**	(92,998)
Net cash generated from operating activities		**210,204**	441,164

	Notes	2012 HK$'000	2011 HK$'000 (Re-presented)
Cash flows from investing activities			
Acquisition of subsidiaries	*39*	**–**	2,424
Disposals of subsidiaries	*40*	**(2,238)**	(2,754)
Deposits paid for potential investments		**–**	(162,560)
Refund of deposits paid for potential investments		**19,715**	–
Purchases of other intangible assets	*21*	**–**	(791)
Purchases of property, plant and equipment	*16*	**(77,569)**	(88,806)
Purchases of available-for-sale financial assets		**(24,888)**	–
Proceeds from disposals of property, plant and equipment		**237**	935
Investments in associates		**(121,087)**	(603)
Investment in a jointly controlled entity		**(6,226)**	–
Increase in prepayments, deposits and other receivables		**(14,399)**	(75,717)
Increase in pledged bank deposits		**(211,180)**	(37,013)
Proceeds of outstanding consideration on disposal of subsidiaries	*40(a)*	**12,362**	–
Repayments from a promissory note	*40(b)*	**61,200**	–
Net cash used in investing activities		**(364,073)**	(364,885)
Cash flows from financing activities			
New bank loans		**1,256,844**	1,417,637
Repayments of bank loans		**(1,145,946)**	(1,170,237)
Repayments of loan from a shareholder		**–**	(195,000)
Proceeds from issuance of convertible bonds		**–**	400,000
Proceeds from exercise of share options		**–**	1,331
Dividend paid to non-controlling shareholder of a subsidiary		**(24,724)**	(12,362)
Net cash generated from financing activities		**86,174**	441,369
Net (decrease)/increase in cash and cash equivalents		**(67,695)**	517,648
Cash and cash equivalents at 1 January		**697,902**	173,823
Effect of foreign exchange rate changes		**3,066**	6,431
Cash and cash equivalents at 31 December		**633,273**	697,902

1. GENERAL INFORMATION

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

Pursuant to a special resolution of the Company passed in May 2012, the name of the Company was changed from "China CBM Group Limited" to "Rosan Resources Holdings Limited" with effect from 1 June 2012.

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

On 13 January 2012, Popular Sky International Limited ("**Popular Sky**") and its subsidiaries, i.e. CFT Henan (HK) Limited ("**CFT**") and Henan Huanglong New Energy Development Company Limited# ("**Huanglong**") (河南煌龍新能源發展有限公司) (collectively called the "**Popular Sky Group**") were disposed of to Dragon Rich Resources Limited ("**Dragon Rich**"), at a total consideration of HK$71.2 million, as the financial results of the coalbed methane ("**CBM**") related business carried out by the Popular Sky Group were considered unsatisfactory. Dragon Rich is a company incorporated in the British Virgin Islands which is beneficially owned as to 60% by Mr. Wu Jiahong ("**Mr. Wu**") and as to 40% by Mr. Xu Lidi ("**Mr. Xu**") respectively. Mr. Wu is the executive director of the Company and Mr. Xu is a former director of the Company and existing directors of certain subsidiaries of the Group and both Mr. Wu and Mr. Xu are the directors of Dragon Rich. Thus, Dragon Rich is considered to be a related party to the Group. The disposal was completed on 2 March 2012. Details of the disposal of the subsidiaries are set out in notes 10 and 40(b). This business segment is also presented as discontinued operations in accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") 5. Certain comparatives on the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the related notes have been re-presented as a result of the retrospective application of HKFRS 5. Details of the disposal of the Popular Sky Group are also set out in the Company's announcement dated 8 February 2012.

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

The financial statements on pages 29 to 114 have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations ("**Int**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 22 March 2013.

For identification purpose only

2. ADOPTION OF NEW/REVISED HKFRSs

(a) Adoption of new/revised HKFRSs – effective from 1 January 2012

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

Except as explained below, the adoption of the new/revised standards and interpretations has no significant impact on the Group's financial statements.

Amendments to HKFRS 7 - Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

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

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

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HK(IFRIC) – Int 20	Stripping Costs of the Production Phase of a Surface Mine[2]

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

2. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

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

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to five standards.

(i) HKFRS 1 First-time Adoption of HKFRS

Issue – repeated application of HKFRS 1

The amendment applies to entities that have applied HKFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with HKFRS. The financial statement preparer in this situation may either prepare financial statements in accordance with HKFRS 1 or apply HKFRS retrospectively in accordance with HKAS 8.

Issue – borrowing costs

The improvement clarifies that a first-time adopter is allowed to carry forward the amount previously capitalised under its previous GAAP in the opening statement of financial position at the date of transition. Borrowing costs incurred on or after the date of transition relating to qualifying assets are accounted for in accordance with HKAS 23, even if the construction of qualifying asset commences before the transition date.

(ii) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(iii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iv) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

2. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

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

***HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle* (Continued)**

(v) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKFRS 7 - Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

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

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

2. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

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

HKFRS 9 – Financial Instruments

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

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

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

HKFRS 10 – Consolidated Financial Statements

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

2. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

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

HKFRS 11 – Joint Arrangements

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

HKFRS 12 – Disclosure of Interests in Other Entities

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

HKFRS 13 – Fair Value Measurement

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

2. ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Business combination and basis of consolidation

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Business combination and basis of consolidation (Continued)

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

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

3.3 Subsidiaries

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

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

3.4 Associates

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Joint ventures

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Joint ventures (Continued)

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

3.6 Foreign currency translation

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Revenue recognition

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

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

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

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

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

3.8 Borrowing costs

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

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

3.9 Goodwill

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Goodwill (Continued)

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

3.10 Intangible assets (other than goodwill and mining rights)

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

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

3.11 Prepaid lease payments

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

3.12 Mining rights

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

3.13 Property, plant and equipment

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Property, plant and equipment (Continued)

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

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

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

3.14 Impairment of non-financial assets

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Impairment of non-financial assets (Continued)

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

3.15 Leases

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

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

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

3.16 Financial assets

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

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

Financial assets at fair value through profit or loss

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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

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

Loans and receivables

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

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

Impairment of financial assets

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

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

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial assets (Continued)

Impairment of financial assets **(Continued)**

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

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

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss of the period in which the impairment occurs.

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

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial assets (Continued)

***Impairment of financial assets* (Continued)**

(ii) Available-for-sale financial assets (Continued)

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

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

3.17 Inventories

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

3.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Accounting for income taxes (Continued)

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

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

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

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

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

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

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

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

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

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

  (i) the same taxable entity; or

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

3.19 Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Share capital

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

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

3.21 Employee benefits

Retirement benefit obligations

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

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

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

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

Share-based employee compensation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Employee benefits (Continued)

Share-based employee compensation **(Continued)**

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

3.22 Financial liabilities

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

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

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

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

Borrowings

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

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

Accounts and bills payables/other payables and accruals

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

Convertible bonds

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial liabilities (Continued)

Convertible bonds (Continued)

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

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

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

Financial guarantee contracts

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

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

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

3.23 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Provisions and contingent liabilities

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

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

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

3.25 Segment reporting

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

In 2011, the executive directors determined the Group's reportable segments to be production and sale of coal, trading of purchased coal and CBM related business. On 30 December 2011, trading of purchased coal was discontinued as a result of disposal of certain subsidiaries, further details of which are set out in notes 10 and 40(a). During the year ended 31 December 2012, management has reassessed and changed the information reported internally for the purposes of resources allocation and assessment of business performance, the CBM related business was no longer considered as a reportable segment resulting from its disposal in March 2012. Hence, for the year ended 31 December 2012, the executive directors have determined that the Group has only one reportable segment as the Group is only engaged in the business of production and sale of coal, which is the basis to allocate resources and assess performance. As a result, the reportable segments have been changed in the current year and the segment information for the year ended 31 December 2011 has been restated according to the revised reportable segment.

3.26 Related parties

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

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

(ii) has significant influence over the Group; or

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill

The Group tests at least on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.9. The recoverable amounts of CGU, to which the goodwill is allocated, are determined based on fair value less costs to sell (2011: value-in-use) calculations. Estimating the fair value less costs to sell (2011: value-in-use) requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Based on the Group's assessment, approximately HK$47.4 million (2011: approximately HK$24.6 million) has been provided for impairment losses on goodwill.

(ii) Depreciation

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

(iii) Amortisation of mining rights

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

(iv) Income taxes

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

(v) Impairment of deposits paid and receivables

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(v) Impairment of deposits paid and receivables (Continued)

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

(vi) Impairment of inventories

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

(vii) Impairment of property, plant and equipment

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

(viii) Impairment of mining rights

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(ix) Provision for reclamation obligations

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

(x) Central pension scheme

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

4.2 Critical judgement in applying the entity's accounting policies

Deferred tax liabilities

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

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5. REVENUE AND OTHER INCOME

Turnover from continuing operations represents the revenue arising from the Group's principal activities which are the production and sale of coal. Trading of purchased coal and CBM related business have been presented as discontinued operations, further details of which are set out in notes 10 and 40.

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

	2012 **HK$'000**	2011 HK$'000 (Re-presented)
Revenue/Turnover		
Continuing operations		
Production and sale of coal	**188,702**	727,500
Discontinued operations		
Trading of purchased coal	**–**	235,279
CBM related business	**361**	1,341
	361	236,620
	189,063	964,120
Other income		
Continuing operations		
Bank interest income	**17,747**	14,530
Interest income from loans to third parties	**4,446**	7,996
Sale of ancillary materials	**24**	613
Sale of consumable tools	**424**	2,038
Gain on disposals of financial assets at fair value through profit or loss*	**829**	94
Amortisation of financial guarantee contracts issued	**1,656**	3,985
Government grant	**1,848**	–
Others	**1,233**	824
	28,207	30,080

* During the year ended 31 December 2012, the Group purchased certain financial assets at fair value through profit or loss amounted to approximately HK$704.7 million (2011: approximately HK$102.8 million). These financial assets have been disposed of during the year with a gain of approximately HK$0.8 million (2011: HK$0.1 million).

6. SEGMENT INFORMATION

The executive directors have identified the Group has only one reportable segment as described in note 3.25.

Geographical information

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

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

Information on major customers

During the year ended 31 December 2012, approximately HK$146.5 million or 77.5% (2011: approximately HK$576.4 million or 59.8%) and approximately HK$42.0 million or 22.2% (2011: approximately HK$104.5 million or 10.8%) of the Group's revenue were derived from Customer A and Customer B respectively in the sale of coal.

As at 31 December 2012, 98.9% (2011: 91.8%) of the Group's accounts receivable were due from these customers.

7. FINANCE COSTS

	2012 **HK$'000**	2011 HK$'000 (Re-presented)
Continuing operations		
Interest charge on bank loans wholly repayable within one year	**58,094**	40,424
Effective interest expense on convertible bonds repayable within five years	**7,797**	4,585
Interest expenses on financial liabilities stated at amortised cost	**65,891**	45,009
Bank charges on bills receivable discounted without recourse	**27,304**	12,448
	93,195	57,457
Less: Interest capitalised in construction in progress*	**(2,508)**	–
	90,687	57,457

* The borrowing cost was capitalised at the rate of 5.71% per annum for the year ended 31 December 2012 (2011: Nil).

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging:

	2012 HK$'000	2011 HK$'000 (Re-presented)
Continuing operations		
Cost of inventories sold	**342,456**	362,565
Auditors' remuneration	**1,562**	1,390
Depreciation*	**35,014**	28,220
Operating lease charges on land, buildings and office equipment	**2,873**	2,286
Amortisation of prepaid lease payments	**308**	302
Amortisation of mining rights	**4,188**	12,162
Amortisation of other intangible assets	**574**	369
Employee benefit expense (including directors' remuneration and retirement benefit scheme contributions) *(note 13)*	**144,222**	231,250
Exchange loss, net	**659**	669
Provision for impairment on deposits paid	**–**	3,627
Loss on disposals of property, plant and equipment	**1,144**	244
Impairment loss on goodwill	**47,427**	24,635
Provision for financial guarantee contracts issued	**–**	5,610
Provision for reclamation obligations	**7,551**	37,132

* Depreciation of approximately HK$27.1 million (2011: approximately HK$16.2 million, as re-presented) has been included in cost of sales and approximately HK$7.9 million (2011: approximately HK$12.0 million, as re-presented) in administrative expenses.

9. INCOME TAX (CREDIT)/EXPENSE

For the year ended 31 December 2012, no Hong Kong Profits Tax has been provided in the financial statements as the Group has tax losses brought forward from previous years. For the year ended 31 December 2011, Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong.

Corporate income tax arising from operations in the PRC is calculated at the statutory income tax rate of 25% (2011: 25%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations in the PRC.

	2012 HK$'000	2011 HK$'000
Continuing operations		
Current tax – PRC income tax		
– Current year	**898**	77,002
– Under-provision in respect of prior year	**946**	170
	1,844	77,172
Deferred tax *(note 35)*		
– Current year	**(3,221)**	3,983
	(1,377)	81,155

9. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

Reconciliation between income tax (credit)/expense and accounting (loss)/profit at applicable tax rates is as follows:

	2012 **HK$'000**	2011 HK$'000 (Re-presented)
(Loss)/Profit before income tax from continuing operations	**(383,915)**	105,303
Tax on (loss)/profit before income tax, calculated at the applicable rates in the tax jurisdictions concerned	**(90,446)**	30,457
Tax effect of non-taxable income	**(5,431)**	(741)
Tax effect of non-deductible expenses	**32,741**	43,311
Tax losses not recognised	**60,851**	7,958
Utilisation of previously unrecognised tax losses	**(38)**	–
Under-provision in respect of prior year	**946**	170
Income tax (credit)/expense	**(1,377)**	81,155

10. DISCONTINUED OPERATIONS

On 30 December 2011, the business of trading of purchased coal carried out by the subsidiaries, namely Henan Bianlong Shangmao Company Limited# ("**Bianlong**")（河南汴龍商貿有限公司）and its subsidiary, namely Guizhou Zhongan Guilong Energy Development Company Limited#（貴州中安貴隆能源發展有限公司）(collectively called the "**Bianlong Group**"), were disposed of to two independent third parties at a total cash consideration of RMB10.0 million (equivalent to approximately HK$12.4 million) as there had been unsatisfactory financial results in the Bianlong Group. This business segment was already presented as discontinued operations in accordance with HKFRS 5 in the Group's annual financial statements for the year ended 31 December 2011.

As mentioned in note 1, on 13 January 2012, the Popular Sky Group together with its CBM related business were disposed of to Dragon Rich, at a total consideration of HK$71.2 million.

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10. DISCONTINUED OPERATIONS (CONTINUED)

The results and cash flows of the Bianlong Group and the Popular Sky Group mentioned above were as follows:

	Period from 1 January 2012 to 2 March 2012 HK$'000	Year ended 31 December 2011 HK$'000 (Re-presented)
Income	**424**	235,026
Expenses	**(2,005)**	(254,713)
Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost *(note 39)*	**–**	23,392
(Loss)/Profit before income tax	**(1,581)**	3,705
Income tax expense	**–**	(289)
(Loss)/Profit after tax	**(1,581)**	3,416
Gain on disposal of subsidiaries *(note 40)*	**6,785**	5,523
Profit for the period/year from discontinued operations	**5,204**	8,939
Net cash used in operating activities	**(12,335)**	(54,619)
Net cash used in investing activities	**(1,597)**	(8,249)
Net cash generated from financing activities	**–**	91,561
Net cash (outflows)/inflows	**(13,932)**	28,693

The carrying amounts of the assets and liabilities of the Bianlong Group and the Popular Sky Group at the date of disposal are disclosed in notes 40(a) and 40(b) to the financial statements respectively.

A profit of approximately HK$5.5 million and approximately HK$6.8 million was resulted on the disposal of the Bianlong Group and the Popular Sky Group respectively, being the proceeds of disposal less the carrying amount of the subsidiaries' net assets. No tax charge or credit arose from the disposal.

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

10. DISCONTINUED OPERATIONS (CONTINUED)

Profit for the period/year from discontinued operations includes the followings:

	Period from 1 January 2012 to 2 March 2012 HK$'000	Year ended 31 December 2011 HK$'000 (Re-presented)
Auditors' remuneration	**8**	5
Depreciation	**582**	3,437
Operating lease charges on land, buildings and office equipment	**34**	233
Employee benefit expense (including directors' remuneration and retirement benefit scheme contributions)	**134**	2,101
Exchange loss, net	**–**	1,028
Write off of other receivables	**–**	3,875
Loss on disposals of property, plant and equipment	**–**	2

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

Of the consolidated loss attributable to owners of the Company of approximately HK$344.2 million (2011: profit of approximately HK$25.6 million), a loss of approximately HK$9.5 million (2011: approximately HK$17.1 million) has been dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE

The comparative figures of basic and diluted (loss)/earnings per share have been restated for the effects of the Share Consolidation as mentioned in note 36(c)(i).

From continuing and discontinued operations

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

	2012 HK$'000	2011 HK$'000
(Loss)/Profit from continuing and discontinued operations		
(Loss)/Profit for the year attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share computation	**(344,249)**	25,616

12. (LOSS)/EARNINGS PER SHARE (CONTINUED)

From continuing and discontinued operations (Continued)

	2012 '000	2011 '000 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**712,674**	610,395
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**–**	265
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share computation	**712,674**	610,660

The calculation of basic (loss)/earnings per share attributable to the owners of the Company for the year ended 31 December 2012 is based on the loss attributable to the owners of the Company of approximately HK$344.2 million (2011: profit of approximately HK$25.6 million) and on the weighted average of 712,674,000 (2011: 610,395,000, as restated) ordinary shares during the year.

In calculating the diluted (loss)/earnings per share attributable to the owners of the Company for the year ended 31 December 2012 and 2011, the potential issue of shares arising from the conversion of the Company's convertible bonds would decrease the loss per share or increase the earnings per share attributable to the owners of the Company and is not taken into account as they have an anti-dilutive effect. Share options of the Company are not dilutive as the exercise price of the options exceeds the average market price of ordinary shares during the year ended 31 December 2012. Therefore, the diluted (loss)/earnings per share attributable to the owners of the Company for the year ended 31 December 2012 and 2011 is based on the loss attributable to the owners of the Company of approximately HK$344.2 million (2011: profit of approximately HK$25.6 million) and on the weighted average of 712,674,000 (2011: 610,660,000, as restated) ordinary shares during the year ended 31 December 2012, being the weighted average number of 712,674,000 (2011: 610,395,000, as restated) ordinary shares used in basic (loss)/earnings per share calculation and adjusted for the effect of the share options of nil (2011: 265,000, as restated) shares.

12. (LOSS)/EARNINGS PER SHARE (CONTINUED)

From continuing operations

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

	2012 HK$'000	2011 HK$'000 (Re-presented)
(Loss)/Profit from continuing operations		
(Loss)/Profit for the year attributable to owners of the Company	**(344,249)**	25,616
Less: Profit for the year from discontinued operations	**5,204**	8,939
(Loss)/Profit for the year attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share from continuing operations computation	**(349,453)**	16,677

In calculating the diluted (loss)/earnings per share from continuing operations attributable to the owners of the Company for the years ended 31 December 2012 and 2011, the potential issue of shares arising from the conversion of the Company's convertible bonds would decrease the loss per share or increase the earnings per share from continuing operations attributable to the owners of the Company and is not taken into account as they have an anti-dilutive effect. Share options of the Company are not dilutive as the exercise price of the options exceeds the average market price of ordinary shares during the year ended 31 December 2012. Therefore, the diluted (loss)/earnings per share from continuing operations attributable to the owners of the Company for the year ended 31 December 2012 and 2011 is based on the loss from continuing operations attributable to the owners of the Company of approximately HK$349.5 million (2011: profit of approximately HK$16.7 million) and on the weighted average of 712,674,000 (2011: 610,660,000, as restated) ordinary shares during the year ended 31 December 2012, being the weighted average number of 712,674,000 (2011: 610,395,000, as restated) ordinary shares used in basic (loss)/earnings per share from continuing operations calculation and adjusted for the effect of the share options of nil (2011: 265,000, as restated) shares.

From discontinued operations

Basic earnings per share for the discontinued operations is 0.730 HK cent per share (2011: 1.465 HK cents) and diluted earnings per share for the discontinued operations is 0.730 HK cent per share (2011: 1.464 HK cents), based on the profit for the year from the discontinued operations of approximately HK$5.2 million (2011: approximately HK$8.9 million) and the denominators detailed above for both basic and diluted earnings per share.

The computation of diluted earnings per share from discontinued operations does not taken into account the potential issue of shares arising from conversion of the Company's convertible bonds since their conversion would result in an increase in earnings per share or decrease in loss per share from continuing operations.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2012 HK$'000	2011 HK$'000 (Re-presented)
Continuing operations		
Wages, salaries, allowance and other benefits in kind	**108,631**	181,907
Retirement benefit scheme contribution – defined contribution plans	**35,591**	49,343
	144,222	231,250

14. DIRECTORS' REMUNERATION

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

	Fees HK$'000	Salaries and allowances HK$'000	Share based payment HK$'000	Bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2012						
Executive Directors						
Mr. Wu	–	1,450	–	–	14	1,464
Li Chun On ("**Mr. Li**")	–	2,080	–	–	14	2,094
Yang Hua	–	2,193	–	–	65	2,258
Dong Cunling	–	2,275	–	–	–	2,275
Zhou Guangwen*	–	269	–	–	–	269
Non-Executive Director						
Li Chunyan	300	325	–	–	–	625
Independent Non-Executive Directors						
Chen Renbao	150	–	–	–	–	150
Ma Yueyong	150	–	–	–	–	150
Li Daomin*	134	–	–	–	–	134
	734	8,592	–	–	93	9,419

* newly appointed on 8 February 2012

14. DIRECTORS' REMUNERATION (CONTINUED)

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

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

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2011: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included five (2011: four) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments payable to the remaining one individual during the year ended 31 December 2011 were as follows:

	2012 **HK$'000**	2011 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**–**	479
Retirement benefit scheme contributions	**–**	–
	–	479

The emoluments fell within the following band:

	Number of individual	
	2012	2011
Emolument band		
Nil – HK$1,000,000	**–**	1

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: Nil).

During the year ended 31 December 2011, no share options were granted to the remaining one highest paid individual of the Group to subscribe for ordinary shares of the Company.

The emoluments paid or payable to members of senior management were within the following bands:

	2012 **No. of individuals**	2011 No. of individuals
Emolument band		
Nil – HK$1,000,000	**4**	5
HK$1,000,000 – HK$1,500,000	**1**	–
HK$1,500,000 – HK$2,000,000	**–**	2
HK$2,000,000 – HK$2,500,000	**3**	–
HK$2,500,000 – HK$3,000,000	**–**	1

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings and mining structures HK$'000	Plant and machineries HK$'000	Mining related machinery and equipment HK$'000	Furniture, fixtures, equipment and leasehold improvement HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2011							
Cost	172,417	19,211	93,189	11,237	23,443	49,726	369,223
Accumulated depreciation	(33,604)	(8,348)	(25,242)	(4,734)	(13,345)	–	(85,273)
Net book value	138,813	10,863	67,947	6,503	10,098	49,726	283,950
Year ended 31 December 2011							
Opening net book value	138,813	10,863	67,947	6,503	10,098	49,726	283,950
Exchange difference	8,052	1,849	3,302	299	537	1,693	15,732
Additions	6,577	4,286	17,574	763	6,235	53,371	88,806
Acquisition of subsidiaries *(note 39)*	–	30,124	–	190	1,100	25	31,439
Transfer	77,763	82	1,663	–	–	(79,508)	–
Disposals	–	–	(434)	(2)	(745)	–	(1,181)
Disposal of subsidiaries *(note 40(a))*	–	–	–	(263)	–	–	(263)
Depreciation	(9,500)	(5,693)	(10,453)	(1,273)	(4,738)	–	(31,657)
Closing net book value	221,705	41,511	79,599	6,217	12,487	25,307	386,826
At 31 December 2011							
Cost	266,563	56,064	116,107	12,437	30,470	25,307	506,948
Accumulated depreciation	(44,858)	(14,553)	(36,508)	(6,220)	(17,983)	–	(120,122)
Net book value	221,705	41,511	79,599	6,217	12,487	25,307	386,826
Year ended 31 December 2012							
Opening net book value	**221,705**	**41,511**	**79,599**	**6,217**	**12,487**	**25,307**	**386,826**
Exchange difference	**1,578**	**(181)**	**692**	**34**	**29**	**131**	**2,283**
Additions	**14,581**	**3,660**	**14,050**	**451**	**930**	**43,897**	**77,569**
Transfer	**11,565**	**–**	**15,703**	**–**	**–**	**(27,268)**	**–**
Disposals	**–**	**–**	**(1,379)**	**–**	**(2)**	**–**	**(1,381)**
Disposal of subsidiaries *(note 40(b))*	**(601)**	**(26,889)**	**–**	**(165)**	**(877)**	**(12,108)**	**(40,640)**
Depreciation	**(14,222)**	**(3,575)**	**(11,803)**	**(1,044)**	**(4,952)**	**–**	**(35,596)**
Closing net book value	**234,606**	**14,526**	**96,862**	**5,493**	**7,615**	**29,959**	**389,061**
At 31 December 2012							
Cost	**294,069**	**29,082**	**144,799**	**12,718**	**30,444**	**29,959**	**541,071**
Accumulated depreciation	**(59,463)**	**(14,556)**	**(47,937)**	**(7,225)**	**(22,829)**	**–**	**(152,010)**
Net book value	**234,606**	**14,526**	**96,862**	**5,493**	**7,615**	**29,959**	**389,061**

During the year, interest expenses amounting to approximately HK$2.5 million (2011: Nil) was capitalised in construction in progress as disclosed in note 7.

17. PREPAID LEASE PAYMENTS – GROUP

	2012 HK$'000	2011 HK$'000
Opening net book amount	**438**	714
Exchange difference	**–**	26
Amortisation charge for the year	**(308)**	(302)
Closing net book amount	**130**	438

All prepaid lease payments at 31 December 2012 and 2011 for leasehold interests in land are held in the PRC on medium-term leases.

As at 31 December 2012, the Group was in the process of changing registration of the title certificate of the land use right. Based on the legal opinion obtained from Henan Qunda Law Firm（河南群達律師事務所）, the directors are of the opinion that the Group is entitled to lawfully and validly use the leasehold land during the years ended 31 December 2012 and 2011.

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**397,801**	397,801
Due from subsidiaries	**614,532**	612,826
	1,012,333	1,010,627

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

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

18. INTERESTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Particulars of the principal subsidiaries of the Company as at 31 December 2012 were as follows:

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Company	Principal activities
Directly held				
Beat World Limited	Hong Kong	1 share of HK$1	100	Management service
Clear Interest Limited ("**CIL**")	BVI/Hong Kong	200 shares of US$1 each	100	Investment holding
Star Central Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding
Indirectly held				
Popular Sky Coal Industrial Limited	Hong Kong	1 share of HK$1	100	Investment holding
Hong Kong Zhongyuan Energy Co., Limited	Hong Kong	1 share of HK$1	100	Investment holding
Hong Kong Zhongzhou Energy Co., Limited	Hong Kong	1 share of HK$1	100	Investment holding
Highlink Investments Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding
Alive Investments Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding
Dynamic Coal Company Limited	Hong Kong	1 share of HK$1	100	Investment holding
Dynamic Energy Development (Shenzhen) Company Limited# (合動能源開發(深圳)有限公司)	PRC, wholly foreign-owned limited liability company	HK$20,000,000	100	Investment holding
Zhong Yue Energy Development (Shenzhen) Company Limited# (中岳能源開發(深圳)有限公司)	PRC, wholly foreign-owned limited liability company	HK$400,000,000	100	Investment holding
Henan Jinfeng Coal Industrial Group Company Limited# ("**Jinfeng**") (河南金豐煤業集團有限公司)	PRC, limited liability company	RMB118,000,000	90	Production and sale of coal
Shenzhen Zhongzhou Energy Company Limited# (深圳市中州能源有限公司)	PRC, limited liability company	RMB10,000,000	90	Investment holding
Xingyun Coal Industry Company Limited# (登封市興運煤業有限責任公司)	PRC, limited liability company	RMB60,000,000	90	Production and sale of coal
Xiangyang	PRC, limited liability company	RMB50,000,000	90	Production and sale of coal

18. INTERESTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Company	Principal activities
Indirectly held				
Dengfeng Jinfeng Mining Equipment Company Limited# (登封金豐礦山設備有限公司)	PRC, limited liability company	RMB1,000,000	90	Trading of mining equipment and consumable tools
Henan Zhongyuan JiuAn Foundation & Investment Co., Ltd. (河南中原久安創業投資有限公司)	PRC, sino-foreign equity joint venture	RMB272,387,000	100	Investment holding
Beijing Kaisheng Guanhua Investment Company Limited# ("**Kaisheng**") (北京凱盛冠華投資有限公司)	PRC, sino-foreign equity joint venture	RMB80,000,000	91	Project investment, asset management and consultation of investment in the PRC

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19. GOODWILL – GROUP

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

	2012 HK$'000	2011 HK$'000
At beginning of the year		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(85,985)**	(61,350)
Net carrying amount	**182,761**	207,396
For the year		
Opening net carrying amount	**182,761**	207,396
Impairment loss	**(47,427)**	(24,635)
Closing net carrying amount	**135,334**	182,761
At end of the year		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(133,412)**	(85,985)
Net carrying amount	**135,334**	182,761

19. GOODWILL – GROUP (CONTINUED)

Goodwill as at 31 December 2011 and 2012 arose from the acquisitions of CIL and its subsidiaries (the "**CIL Group**") and represented the future economic benefits from the production and sales of coal.

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

The carrying amount of goodwill has been allocated to the CGU of the production and sale of coal for impairment testing. The recoverable amount of the CGU was determined based on fair value less costs to sell (2011: value-in-use) calculations, covering a detailed five-year budget plan, followed by an extrapolation of discounted cash flows. In determining the value of the Group's mining assets/goodwill, the directors have taken account of the estimated coal reserves of the mines after deducting the cumulative amounts of coal already extracted and sold. Accordingly, as the Group depletes its coal reserves, the value of its mining assets/goodwill will also decrease. The write-down of goodwill carrying amount is therefore of similar financial statements effects of amortisation of mining rights as if a separate fair value had been recognised on the longer-term mining license on the acquisition of CIL. The related impairment loss of approximately HK$47.4 million (2011: approximately HK$24.6 million) was included under "Other operating expenses" in the consolidated income statement.

Management's key assumptions were used in the fair value less costs to sell (2011: value-in-use) calculation of the CGU for the year ended 31 December 2012. The following described each key assumption on which management has based its cash flow projects to undertake impairment testing of goodwill.

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

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

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

	2012	2011
Growth rate	**4.9% per annum**	8.7% per annum
Post-tax discount rate/Pre-tax discount rate	**18.4% per annum**	13.0% per annum

Apart from the considerations described in determining the fair value less costs to sell (2011: value-in-use) of the CGU above, the Group's management is not currently aware of any other reasonably possible changes that would necessitate changes in its key estimates.

20. MINING RIGHTS – GROUP

	2012 HK$'000	2011 HK$'000
At 1 January		
Gross carrying amount	**732,685**	700,562
Accumulated amortisation	**(86,092)**	(70,428)
Net carrying amount	**646,593**	630,134
Net carrying amount at 1 January	**646,593**	630,134
Amortisation	**(4,188)**	(12,162)
Exchange difference	**4,248**	28,621
Net carrying amount at 31 December	**646,653**	646,593
At 31 December		
Gross carrying amount	**737,546**	732,685
Accumulated amortisation	**(90,893)**	(86,092)
Net carrying amount	**646,653**	646,593

As at 31 December 2012, the remaining useful lives of mining rights held by the Group ranged from 1.0 to 10.0 years (2011: 1.0 to 11.0 years).

As at 31 December 2011, certain mining rights with net carrying amount of approximately HK$488.5 million were pledged to secure bills payable (note 30) of the Group. No bills payable were pledged by mining rights as at 31 December 2012.

21. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence	
	2012 HK$'000	2011 HK$'000
At 1 January		
Gross carrying amount	**1,744**	911
Accumulated amortisation	**(877)**	(477)
Net carrying amount	**867**	434
Net carrying amount at 1 January	**867**	434
Additions	**–**	791
Amortisation	**(574)**	(369)
Exchange difference	**–**	11
Net carrying amount at 31 December	**293**	867
At 31 December		
Gross carrying amount	**1,755**	1,744
Accumulated amortisation	**(1,462)**	(877)
Net carrying amount	**293**	867

22. INTERESTS IN ASSOCIATES – GROUP

	2012 **HK$'000**	2011 HK$'000
Share of net assets	**129,514**	591

Particulars of the associates of the Group as at 31 December 2012 were as follows:

Name	**Place of incorporation/ operations and type of legal entity**	**Particulars of registered capital**	**Percentage of issued capital held by the Group**	**Principal activities**
Beijing Zhaohua Hefu Investment Management Limited#, ("**Zhaohua Hefu**") (北京兆華合富投資管理有限公司)	PRC, limited liability company	RMB2,000,000	25%	Investment management, asset management and consultation of investment in the PRC
Beijing Shuozhan Zhongfu Investment Centre (Limited Partnership)# (the "**Partnerhship**") (北京碩展中富投資中心(有限合夥)) *(Note)*	PRC, limited partnership	RMB100,000,000	99%	Project investment, investment management, assets management and consultation service

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Note: Pursuant to the partnership agreements entered in May 2012 and June 2012, the general partner of the Partnership is Zhaohua Hefu (the "**General Partner**"), which is an associate of the Group, owns 1% of the equity interest of the Partnership. The General Partner is responsible for management and control of the business of the Partnership while Kaisheng, the limited partner of the Partnership, possesses significant influence over the operating and financial policies of the Partnership through its participation in the investment committee. As abovementioned, although the Group owned 99% equity interest in the Partnership, the Group only possessed significant influence over the operating and financial policies of the Partnership, therefore, the investment has been classified as interests in associates in the consolidated statement of financial position as at the reporting date.

22. INTERESTS IN ASSOCIATES – GROUP (CONTINUED)

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

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

	2012 **HK$'000**	2011 HK$'000
Total assets	**139,006**	2,370
Total liabilities	**(6,262)**	(8)
	132,744	2,362
Group's share of net assets of the associates	**129,514**	591

	Year ended **31 December** **2012** **HK$'000**	Period from 6 July 2011 to 31 December 2011 HK$'000
Income	**23,342**	4
Expenses	**(16,241)**	(112)
Profit/(Loss) after income tax expenses for the year/period	**7,101**	(108)
Group's share of profits/(losses) of the associates for the year/period	**5,668**	(27)

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

23. INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP

	2012 **HK$'000**	2011 HK$'000
Share of net assets	**6,340**	86,615

23. INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP (CONTINUED)

Particulars of the jointly controlled entity of the Group as at 31 December 2012 were as follows:

Name	Place of incorporation/ operations and type of legal entity	Particulars of registered capital	Percentage of issued capital held by the Group	Principal activities
Henan Chalco Li Chuang Resources Company Limited# ("**Henan Chalco**") (河南中鋁立創礦業有限公司) *(Note)*	PRC, other limited liability company	RMB10,000,000	51%	Sale of alumina

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Note: Although the Group owned 51% equity interest in Henan Chalco, the Group and the other equity owner of Henan Chalco have joint control over Henan Chalco and none of the participating parties has unilateral control over the economic activity pursuant to the joint venture agreement entered in July 2012. Therefore the investment has been classified as interest in a jointly controlled entity as at the reporting date.

In September 2012, the Group disposed of its entire interest in a jointly controlled entity, Henan Yulong Energy Development Co., Ltd. ("**Yulong**"), to the other equity owner of Yulong at a consideration of approximately HK$93.6 million (equivalent to approximately RMB76.5 million). Prior to the date of disposal, the Group shared a net loss of HK$2.0 million. As at the disposal date, the Group's share of the jointly controlled entity's total assets and total liabilities amounted to HK$98.0 million and HK$14.3 million respectively. Upon disposal, there is release of exchange fluctuation reserve amounted to HK$6.7 million. Accordingly, a gain of HK$16.6 million was recognised during the year. The outstanding consideration has not been settled up to the date of this report and has been included in other receivables as at 31 December 2012. The balance is unsecured, interest-free and repayable on demand.

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

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

	2012 HK$'000	2011 HK$'000
Non-current assets	**8**	25,023
Current assets	**6,332**	62,861
Current liabilities	**–**	(1,269)
	6,340	86,615
Income	**2,211**	4,113
Expenses	**(4,188)**	(11,977)
Loss after income tax expenses attributable to the Group	**(1,977)**	(7,864)

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

24. DEPOSITS PAID FOR POTENTIAL INVESTMENTS – GROUP

As at 31 December 2012, the Group paid deposits amounted to approximately HK$68.4 million (equivalent to RMB55.0 million) (2011: approximately HK$137.9 million (equivalent to RMB111.5 million)) to Henan Zhongtou Yingke Investment Company Limited# ("**Zhongtou Yingke**")（河南中投盈科投資有限公司）in relation to the acquisition of a property investment business. During the year, deposits paid of approximately HK$70.3 million (equivalent to RMB56.5 million) was reallocated to other receivables upon finalisation of the consideration regarding the acquisition of the property investment business. Details regarding the acquisition of property business were as follows:

On 31 December 2012, the Group entered into a conditional agreement with an independent third party of the Group, i.e. Zhongtou Yingke, regarding the acquisition of 60% of Zhengzhou Yingu Zhiye Company Limited# ("**Yingu**")（鄭州銀谷置業有限公司）at a consideration of approximately HK$78.4 million (equivalent to RMB63.0 million). It will become a subsidiary of the Group upon completion. The completion of the acquisition is subject to the terms and conditions as set out in the conditional agreement. Yingu held properties in the PRC. Approximately HK$10.0 million (equivalent to RMB8.0 million) of the total consideration was conditional upon the completion of the relevant registration process and the issuance of relevant certificates of one of the properties held by Yingu. Up to the date of this report, the acquisition has not yet been completed.

As at 31 December 2011, the Group paid deposits amounted to approximately HK$24.7 million (equivalent to RMB20.0 million) to an independent third party in relation to potential investments in certain PRC operations. During the year, deposits paid of approximately HK$19.7 million (equivalent to RMB16.0 million) was refunded and approximately HK$5.0 million (equivalent to RMB4.0 million) was reallocated to other receivables regarding the potential investments in other PRC operations.

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25. INVENTORIES – GROUP

	2012 HK$'000	2011 HK$'000
Coal	**1,987**	3,138
Spare parts and consumables	**12,335**	11,140
	14,322	14,278

26. ACCOUNTS AND BILLS RECEIVABLES – GROUP

	2012 HK$'000	2011 HK$'000
Accounts receivable	**265,912**	302,441
Bills receivable	**255,725**	165,836
	521,637	468,277

26. ACCOUNTS AND BILLS RECEIVABLES – GROUP (CONTINUED)

The Group's sales are billed to customers according to the terms of the relevant agreement. Normally credit periods ranging from 60 to 180 days (2011: 30 to 180 days) are allowed. Based on the invoice dates, ageing analysis of the Group's accounts receivable at the reporting date is as follows:

	2012 HK$'000	2011 HK$'000
0 – 90 days	**40,376**	149,865
91 – 180 days	**25,140**	128,938
181 – 365 days	**123,237**	12,772
Over 365 days	**89,103**	22,732
	277,856	314,307
Less: Provision for impairment	**(11,944)**	(11,866)
	265,912	302,441

As at 31 December 2012, accounts receivable of approximately HK$236.4 million (2011: approximately HK$100.5 million) were pledged to secure bank loans of the Group (note 33).

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

	2012 HK$'000	2011 HK$'000
Neither past due nor impaired	**65,516**	278,803
Past due for less than 3 months	**28,102**	705
Past due for more than 3 months but less than 6 months	**95,135**	12,066
Past due for more than 6 months but less than 1 year	**74,424**	–
Past due for more than 1 year	**2,735**	10,867
	265,912	302,441

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

	2012 HK$'000	2011 HK$'000
At 1 January	**11,866**	11,345
Exchange difference	**78**	521
At 31 December	**11,944**	11,866

26. ACCOUNTS AND BILLS RECEIVABLES – GROUP (CONTINUED)

At each reporting date, the Group reviews accounts receivable for evidence of impairment on an individual and collective bases. As at 31 December 2012, the Group determined accounts receivable of approximately HK$11.9 million as individually impaired (2011: approximately HK$11.9 million). No impairment loss was recognised during the year (2011: Nil).

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

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

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

As at 31 December 2012, included in prepayments, deposits and other receivables, there was an amount due from Bianlong amounted to approximately HK$72.7 million (equivalent to approximately RMB58.4 million) (2011: HK$75.7 million (equivalent to approximately RMB61.2 million)). The amount due is unsecured, interest bearing at prevailing bank interest rate and repayable within one year.

As at 31 December 2012, balance of prepayments, deposits and other receivables also included amounts due from third parties amounted to approximately HK$22.4 million (equivalent to RMB18.0 million) (2011: Nil). The amounts due are unsecured and repayable on demand, interest bearing ranging from 4.46% to 11.20% per annum.

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2012 **HK$'000**	2011 HK$'000
Structured deposit in the PRC	**24,888**	–

The amount represented short-term deposit with banks, which carry variable returns based on the return of portfolios of investments as invested by the banks. The deposit as at 31 December 2012 was matured on 14 January 2013 and this amount with interest of HK$0.08 million were received on the same date. The fair value of the Group's structured deposit in the PRC had been measured as described in note 46(g).

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

(a) Pledged bank deposits

The Group's bills payable amounting to approximately HK$554.7 million (equivalent to approximately RMB445.7 million) (2011: approximately HK$111.9 million (equivalent to approximately RMB90.5 million)) (note 30) are secured by the pledge of the Group's time deposit of approximately HK$318.8 million (equivalent to approximately RMB256.2 million) as at 31 December 2012 (2011: HK$32.8 million (equivalent to approximately RMB26.5 million)).

The Group's bank loans amounting to approximately HK$74.2 million (equivalent to RMB60.0 million) were secured by the pledge of the Group's time deposits of approximately HK$74.2 million (equivalent to RMB60.0 million) as at 31 December 2011. No bank loans were pledged by the Group's time deposits as at 31 December 2012.

The effective interest rates of the pledged bank deposits are at 2.80% per annum (2011: 0.50% to 3.05% per annum).

(b) Cash and cash equivalents

As at 31 December 2012, included in cash and cash equivalents of the Group is approximately HK$398.0 million (2011: approximately HK$693.0 million) of bank balances denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business in the PRC.

30. ACCOUNTS AND BILLS PAYABLES – GROUP

	2012 HK$'000	2011 HK$'000
Accounts payable	**15,113**	9,636
Bills payable	**554,651**	111,851
	569,764	121,487

30. ACCOUNTS AND BILLS PAYABLES – GROUP (CONTINUED)

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

	2012	2011
	HK$'000	HK$'000
0 – 90 days	**12,745**	9,165
91-180 days	**1,237**	1
181-365 days	**337**	10
Over 365 days	**794**	460
	15,113	9,636

As at the reporting date, the Group's bills payable of approximately HK$554.7 million (2011: approximately HK$111.9 million) were secured by the pledge of time deposits (note 29(a)). As at 31 December 2012, bills payable of approximately HK$242.7 million were guaranteed by independent third parties. As at 31 December 2011, bills payables of approximately HK$96.4 million were guaranteed by a related party, an independent third party and certain mining rights (note 20).

31. OTHER PAYABLES AND ACCRUALS – GROUP

As at 31 December 2011, included in other payables and accruals is dividend payable to a non-controlling shareholder of a subsidiary amounted to approximately HK$24.7 million (equivalent to RMB20.0 million). The amount due was unsecured, interest-free and repayable on demand. During the year ended 31 December 2012, the dividend payable was fully settled.

32. PROVISION FOR RECLAMATION OBLIGATIONS – GROUP

	2012	2011
	HK$'000	HK$'000
At 1 January	**68,027**	33,660
Provision made during the year	**7,551**	37,132
Provision used during the year	**(2,063)**	(5,030)
Exchange difference	**506**	2,265
At 31 December	**74,021**	68,027

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

33. BANK LOANS – GROUP

	2012 HK$'000	2011 HK$'000
Bank loans repayable within one year and classified as current liabilities	**709,308**	593,376
Analysed as follows:		
Secured	**609,756**	154,525
Unsecured	**99,552**	438,851
	709,308	593,376

As at 31 December 2012, bank loans of approximately HK$609.8 million (2011: approximately HK$154.5 million) were secured by certain accounts receivable (note 26) and equity interests in certain subsidiaries of the Company (2011: secured by certain accounts receivable (note 26) and certain deposits at bank (note 29(a))).

As at 31 December 2012, bank loans of approximately HK$709.3 million (2011: approximately HK$451.2 million) were guaranteed by independent third parties.

As at 31 December 2011, bank loans of approximately HK$43.3 million were co-guaranteed by an independent third party and a director of a major subsidiary of the Group and bank loans of approximately HK$24.7 million were guaranteed by a related party. These bank loans were fully repaid and the related guarantees were released during the year.

As at 31 December 2012, all bank loans bear interest at fixed rates ranging from 5.44% to 8.53% per annum (2011: at fixed rates ranging from 5.85% to 9.22% per annum).

34. CONVERTIBLE BONDS – GROUP AND COMPANY

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

On 31 May 2010, the Company issued zero coupon bonds in the principal amount of HK$200,000,000 (the "**First Tranche of CB4**") mainly for the purpose of settlement of the 2% coupon convertible bonds with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000) issued by the Company on 10 December 2007. Partial of the First Tranche of CB4 with principal amount of HK$80,000,000 was converted by its holder on 7 June 2010. On 3 September 2010, the Company issued zero coupon bonds in the principal amount of HK$100,000,000 (the "**Second Tranche of CB4**").

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

34. CONVERTIBLE BONDS – GROUP AND COMPANY (CONTINUED)

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

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

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

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

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

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

On 11 October 2012, the conversion price of CB4 was adjusted from HK$0.1 per share to HK$1.0 per share upon the approval of the Capital Reorganisation as mentioned in note 36(c).

34. CONVERTIBLE BONDS – GROUP AND COMPANY (CONTINUED)

The initial recognition of CB4 in the consolidated statement of financial position was calculated as follows:

	CB4
	HK$'000
Proceeds of issue	700,000
Equity component	(90,100)
Liability component	609,900

Movement of liability component for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
	HK$'000	HK$'000
At 1 January	**176,253**	193,728
Initial recognition upon issuance of bonds	**–**	352,326
Interest expense	**7,797**	4,585
Conversion of convertible bonds *(note 36(b))*	**–**	(374,386)
At 31 December	**184,050**	176,253

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rates of approximately 4.42% (2011: 5.36%, 4.93%, 4.23%, 4.21% and 4.42% per annum) to the liability components of the Fifth Tranche (2011: the First Tranche, the Second Tranche, the Third Tranche, the Fourth Tranche and the Fifth Tranche) of CB4 for the year ended 31 December 2012.

35. DEFERRED TAX – GROUP

As at 31 December 2012, all tax losses of the Group have no expiry dates under the current tax legislation except for the tax losses amounted to approximately HK$342.1 million (equivalent to approximately RMB274.9 million) (2011: approximately HK$95.7 million (equivalent to approximately RMB77.4 million)) incurred by three subsidiaries in the PRC, which will expire after 5 years from the year in which the losses were incurred. The Group has taxable losses arising in Hong Kong of approximately HK$2.6 million (2011: approximately HK$2.8 million). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the unpredictability of future profits.

35. DEFERRED TAX – GROUP (CONTINUED)

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

	Mining funds HK$'000 *(Note)*	Amortisation allowance on mining rights in excess of related amortisation HK$'000	Total HK$'000
At 1 January 2011	6,581	10,913	17,494
Charged to profit or loss *(note 9)*	501	3,482	3,983
Exchange difference	313	579	892
At 31 December 2011 and 1 January 2012	7,395	14,974	22,369
(Credited)/Charged to profit or loss *(note 9)*	(7,371)	4,150	(3,221)
Exchange difference	(24)	140	116
At 31 December 2012	–	**19,264**	**19,264**

Note: Pursuant to changes in certain regulations of the PRC government in 2009, the Group is required to set aside the mining funds (i.e. production maintenance fee and safety fund). The mining funds are deductible for tax purpose when they are set aside but are expensed for accounting purpose only when they are utilised, a deferred tax liability is provided for the temporary difference in respect of the excess fund set aside for tax purposes. During 2011, a tax notice has been issued to clarify actual utilisation of mining funds is deductible for tax purpose only and thus there is no temporary difference arising from the mining funds. The tax clearance of 2011 issued in 2012 clarified there was no temporary difference regarding mining funds. Following the finalisation of the tax clearance of 2011, the deferred tax liability was reversed during the year.

As at 31 December 2012, deferred tax liabilities amounted to approximately HK$49.6 million (2011: approximately HK$69.8 million) in respect of the aggregate amount of temporary differences of approximately HK$496.4 million (2011: approximately HK$698.4 million) associated with the undistributed earnings of certain of the Group's subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of the differences because it is considered that the Group's subsidiaries in the PRC will not pay any dividend to their overseas holding companies in the foreseeable future and the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

36. SHARE CAPITAL

	Notes	2012 Number of shares	2012 HK$'000	2011 Number of shares	2011 HK$'000
Authorised:					
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012, ordinary shares of HK$0.1 each		**30,000,000,000**	**3,000,000**	30,000,000,000	3,000,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.1 each		**7,126,736,924**	**712,674**	2,918,130,674	291,813
Exercise of share options for ordinary shares of HK$0.1 each	*(a)*	**–**	**–**	8,606,250	861
Conversion of convertible bonds for ordinary shares of HK$0.1 each	*(b)*	**–**	**–**	4,200,000,000	420,000
Share Consolidation (increase in par value from HK$0.1 each to HK$1.0 each)	*(c)(i)*	**(6,414,063,232)**	**–**	–	–
Capital Reduction (decrease in par value from HK$1.0 each to HK$0.1 each)	*(c)(ii)*	**–**	**(641,407)**	–	–
At 31 December, ordinary shares of HK$0.1 each		**712,673,692**	**71,267**	7,126,736,924	712,674

Notes:

(a) During the year ended 31 December 2011, 8,606,250 share options were exercised at the subscription price of HK$0.1547 per share, giving rise to the issue of 8,606,250 new ordinary shares of HK$0.1 each for a consideration of approximately HK$1.3 million. Accordingly, additional share capital of approximately HK$0.9 million and share premium of approximately HK$1.0 million, including the amount transferred from share option reserve, were resulted.

(b) During the year ended 31 December 2011, 4,200,000,000 ordinary shares were issued in aggregate, at the conversion price of HK$0.1 per share to the Subscriber upon the conversion of CB4 (note 34). As a result, there were increases in share capital and share premium of HK$420.0 million and approximately HK$8.5 million respectively. Excluding the amount that would be transferred from equity component of convertible bonds to share capital, the decrease in the liability component of convertible bonds was approximately HK$374.4 million.

(c) Pursuant to a special resolution passed on 10 October 2012 (the "**Special Resolution**"), the proposed capital reorganisation which comprised the followings (the "**Capital Reorganisation**") has become effective on 11 October 2012.

(i) every ten issued shares of HK$0.1 each is consolidated into one new share ("**Consolidated Share**") of HK$1.0 each (the "**Share Consolidation**"). As a result, the number of issued ordinary shares were reduced by 6,414,063,232 shares; and

(ii) the par value of each issued Consolidated Share is reduced from HK$1.0 each to HK$0.1 each by cancelling paid-up capital to the extent of HK$0.9 on each Consolidated Share in issue (the "**Capital Reduction**") so that the share capital was reduced by approximately HK$641.4 million. The corresponding amount has been credited to contributed surplus.

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

37. SHARE OPTION SCHEME

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

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

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

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

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

37. SHARE OPTION SCHEME (CONTINUED)

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

2012

Name or category of participant	At 1 January 2012	Granted during the year	Exercised during the year *(note (i))*	Forfeited during the year	Adjusted upon Capital Reorganisation *(note(iv))*	At 31 December 2012	Date of grant of share options *(note (ii))*	Exercise period of share options	Exercise price of share options *(notes (iii) and (iv))*
Directors									
Mr. Wu	6,081,750	–	–	–	(5,473,575)	**608,175**	3 January 2008	3 January 2008 to 20 October 2014	HK$5.9950
Mr. Li	1,275,000	–	–	–	(1,147,500)	**127,500**	3 January 2008	3 January 2008 to 20 October 2014	HK$5.9950
Other employees									
Mr. Xu	6,081,750	–	–	–	(5,473,575)	**608,175**	3 January 2008	3 January 2008 to 20 October 2014	HK$5.9950
	13,438,500	–	–	–	(12,094,650)	**1,343,850**			
Weighted average exercise price	HK$0.5995	–	–	–	–	HK$5.9950			

2011

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

* On 7 December 2011, Mr. Xu resigned as the director of the Company. His share options of 6,081,750 were reclassified from the category of Directors to Other employees.

37. SHARE OPTION SCHEME (CONTINUED)

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

Notes:

(i) In respect of the share options exercised during the year ended 31 December 2011, the weighted average share price of the Company at the dates of exercise was HK$0.71 per share. The share options exercised during the year ended 31 December 2011 resulted in the issue of 8,606,250 ordinary shares of the Company (note 36(a)). No share options were exercised during the year ended 31 December 2012.

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

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

(iv) The number of share options granted to the directors and an employee has been reduced by 12,094,650 according to the adjustment terms of the Scheme upon the approval of the Capital Reorganisation. The initial exercise price of the share options was at HK$0.5995 per share. Upon approval of the Capital Reorganisation, the exercise price of the share option was adjusted to HK$5.9950.

(v) The options outstanding as at 31 December 2012 had a weighed average remaining contractual life of 1.8 years (2011: 2.8 years).

(b) Financial effect of the share options

No share options were granted during the years ended 31 December 2011 and 2012. As at 31 December 2012, the Company had 1,343,850 (2011: 13,438,500) share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,343,850 (2011: 13,438,500) additional ordinary shares of the Company and additional share capital of approximately HK$0.1 million (2011: approximately HK$1.3 million) and share premium of approximately HK$7.9 million (2011: approximately HK$6.7 million), before the netting-off of the related shares issue expenses and the amount that would be transferred from share option reserve to share premium.

38. RESERVES

(a) Group

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

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

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

Contributed surplus of the Group arose as a result of (i) the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired; (ii) the Group reorganisation in 2007 and represents the reduction of capital of HK$64.1 million pursuant to a special resolution passed on 1 November 2007; and (iii) the Group reorganisation in 2012 and represents the reduction of capital of HK$641.4 million pursuant to the Special Resolution.

38. RESERVES (CONTINUED)

(a) Group (Continued)

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

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

Pursuant to regulations in the PRC, certain subsidiaries of the Group were required to make a transfer of production maintenance fee to other reserve based on RMB8.5 per ton (2011: RMB8.5 per ton) of raw coal mined less the depreciation expenses of the underground coal mining equipment. According to the China Accounting Standards Explanatory Notice No. 3 and other relevant regulations issued by the Ministry of Finance in June 2009, effective for the financial periods beginning on or after 1 January 2009, instead of making an appropriation of funds from retained earnings to reserve, production maintenance fee and other expense of similar nature are required to be charged to cost of production and credited to reserve. Accordingly, the related funds are appropriated from retained profits.

(b) Company

	Share premium	Capital redemption reserve	Contributed surplus	Share option reserve	Equity component of convertible bonds	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	225,801	50	7,641	8,389	30,829	(135,456)	137,254
Share option forfeited	–	–	–	(4,017)	–	4,017	–
Issue of convertible bonds	–	–	–	–	47,674	–	47,674
Issue of ordinary shares on conversion of convertible bonds	8,538	–	–	–	(54,152)	–	(45,614)
Exercise of share options	995	–	–	(525)	–	–	470
Loss for the year	–	–	–	–	–	(17,113)	(17,113)
At 31 December 2011 and 1 January 2012	235,334	50	7,641	3,847	24,351	(148,552)	122,671
Capital Reorganisation *(note 36(c))*	–	–	641,407	–	–	–	641,407
Transfer from contributed surplus to accumulated losses	–	–	(158,018)	–	–	158,018	–
Loss for the year	–	–	–	–	–	(9,466)	(9,466)
At 31 December 2012	**235,334**	**50**	**491,030**	**3,847**	**24,351**	**-**	**754,612**

38. RESERVES (CONTINUED)

(b) Company (Continued)

The contributed surplus of the Company arose as a result of the reorganisations referred to in note 38(a) and represents (i) the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefore; (ii) the reduction of capital pursuant to a special resolution passed on 1 November 2007; and (iii) the reduction of capital pursuant to a special resolution passed on 10 October 2012. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus is also available for distribution to the owners of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

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

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

Pursuant to the Special Resolution, the directors of the Company be and are hereby authorised to use the amount then standing to the credit of the contributed surplus in any manner as may be permitted by the Bermuda Companies Act 1981 and the Bye-laws of the Company including, without limitation, eliminating or setting off the accumulated losses of the Company from time to time without further authorisation from the shareholders. During the year, contributed surplus of approximately HK$158.0 million was set off with the accumulated losses (2011: Nil).

39. ACQUISITION OF SUBSIDIARIES

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

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

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

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

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

Assets and liabilities arising from the acquisition are as follows:

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

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

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

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

40. DISPOSAL OF SUBSIDIARIES

(a) As mentioned in note 10, on 30 December 2011, the Group disposed of its entire equity interest in Bianlong Group, to two independent third parties at a total cash consideration of RMB10.0 million (equivalent to approximately HK$12.4 million). Bianlong Group was engaged in the business of trading of purchased coal during the year ended 31 December 2011.

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

Note:

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

40. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) As mentioned in note 1, on 2 March 2012, the Group disposed of its entire equity interest in Popular Sky and its subsidiary, namely CFT and Huanglong, at a total consideration of HK$71.2 million. Popular Sky and its subsidiaries were engaged in the CBM related business during the year.

	HK$'000
Net assets disposed of comprise:	
Property, plant and equipment	40,640
Accounts and bills receivables	4,757
Prepayments, deposits and other receivables	3,044
Financial assets at fair value through profit or loss	12,237
Cash and cash equivalents	12,238
Accounts and bills payables	(1,038)
Other payables and accruals	(61,750)
	10,128
Exchange fluctuation reserve	(2,483)
Liabilities due to the Group by Popular Sky and CFT assumed by Dragon Rich	56,770
Gain on disposal of subsidiaries	6,785
Total consideration	71,200
Satisfied by:	
Cash	10,000
Promissory note *(Note)*	61,200
	71,200
Net cash outflow arising on disposal:	
Cash consideration received	10,000
Cash and cash equivalents disposed of	(12,238)
	(2,238)

Note:

An interest-free promissory note in the aggregate principal amount of HK$61.2 million issued by Dragon Rich to the Company for part of the consideration which would be due on 30 June 2012. The balance was fully settled during the year.

41. OPERATING LEASE COMMITMENTS

As at 31 December 2012, total future minimum lease payments under non-cancellable operating leases in respect of land and buildings and office equipment payable by the Group are as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**763**	1,492
In the second to fifth years inclusive	**95**	560
	858	2,052

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

The Company did not have any significant lease commitments as at 31 December 2012 (2011: Nil).

42. CAPITAL COMMITMENTS

As at 31 December 2012, the Group had capital expenditure commitments in relation to the purchase of property, plant and equipment contracted but not provided for, net of deposit paid, amounted to approximately HK$13.1 million (2011: approximately HK$57.6 million).

As at 31 December 2012, the Group had capital expenditure commitments authorised but not contracted for in relation to the potential investments in certain PRC operations, amounted to approximately HK$12.4 million (2011: approximately HK$115.6 million).

The Company did not have any significant capital commitments as at 31 December 2012 (2011: Nil).

43. FINANCIAL GUARANTEE CONTRACTS – GROUP

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

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

As at 31 December 2012, no contingent liability for the Group's obligation (2011: Nil) under the guarantee contracts has been disclosed as the directors consider that the possibility of cash outflow on the guarantee contracts is remote.

44. RELATED PARTY TRANSACTIONS – GROUP

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

(a) Compensation of key management personnel

	2012 HK$'000	2011 HK$'000
Total remuneration of key management during the year *(note 14)*	**9,419**	7,389

(b) Purchase of coal

During the year ended 31 December 2011, the Group purchased coal of approximately HK$9.1 million (equivalent to approximately RMB7.5 million) from subsidiaries of the jointly controlled entity. The purchases were conducted in the Group's normal course of business. No purchase of coal was made from subsidiaries of the jointly controlled entity during the year ended 31 December 2012. As at 31 December 2012 and 2011, none of the accounts payable was due to the subsidiaries of the jointly controlled entity.

As at 31 December 2012, included in prepayments, deposits and other receivables were deposits amounted to approximately HK$43.6 million (equivalent to RMB35.0 million) (2011: approximately HK$43.3 million (equivalent to RMB35.0 million)) arising from the purchase of coal paid to a supplier, in which a director of a major subsidiary of the Group is a director of this supplier. On 25 August 2012, this director ceased to be the director of the major subsidiary of the Group. Yet, a newly appointed director of the major subsidiary of the Group has been the director of this supplier since August 2010. The deposits were paid in the Group's normal course of business.

(c) Sales of coal

During the period from 1 January 2012 to 24 August 2012, the Group sold coal of approximately HK$0.2 million (equivalent to approximately RMB0.1 million) (Year ended 31 December 2011: approximately HK$22.0 million (equivalent to approximately RMB18.2 million)) to a company, in which a director of a major subsidiary of the Group was a director of the holding company of this company. On 25 August 2012, the director ceased to be the director of the major subsidiary of the Group. The sales were conducted in the Group's normal course of business. As at 31 December 2011, accounts receivable amounted to approximately HK$22.8 million (equivalent to approximately RMB18.4 million) arose from the sales of coal to this company. The amount due from this company is non-interest bearing and unsecured. A credit period of 180 days was granted to this company.

44. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

(d) Sales of consumable tools

During the year ended 31 December 2011, the Group sold consumable tools of approximately HK$1.0 million (equivalent to approximately RMB0.9 million) to a company, in which a director of a major subsidiary of the Group became a director of this company on 1 December 2010 and ceased to be the director of this company on 12 May 2011. Yet, the director of the major subsidiary of the Group also has been a director of the holding company of this company since 1 December 2010. Moreover, a director of the Company, who has been appointed on 2 December 2011, is a director of this company. So the company is considered to be a related party to the Group. The sales were conducted in the Group's normal course of business. No consumable tools were sold to this company during the year ended 31 December 2012. As at 31 December 2012 and 2011, none of the other receivables were due from this company.

During the year ended 31 December 2011, the Group sold consumable tools of approximately HK$3.2 million (equivalent to approximately RMB2.7 million) to a company, in which a director of a major subsidiary of the Group was a director of this company. The sales were conducted in the Group's normal course of business. On 1 July 2011, the director of the major subsidiary of the Group ceased to be the director of this company.

During the year, the Group sold consumable tools of approximately HK$0.8 million (equivalent to approximately RMB0.7 million) (year ended 31 December 2011: Nil) to a company, in which a director of a major subsidiary of the Group is a director of the holding company of this company. On 25 August 2012, this director ceased to be the director of the major subsidiary of the Group. Yet, a newly appointed director of the major subsidiary of the Group has been the director of the holding company of this customer since August 2010. The sales were conducted in the Group's normal course of business. As at 31 December 2012, included in prepayments, deposits and other receivables are other receivables amounted to approximately HK$0.04 million (equivalent to approximately RMB0.03 million) (2011: Nil) arising from sales of consumable tools to this company.

(e) Selling and distribution expenses

During the period from 1 January 2012 to 24 August 2012, the Group paid distribution expenses of approximately HK$0.4 million (equivalent to approximately RMB0.3 million) (Year ended 31 December 2011: approximately HK$5.7 million (equivalent to approximately RMB4.7 million)) to a company, of which one of its directors is also a director of the Group's major subsidiary from 11 July 2010. On 25 August 2012, this director ceased to be the director of the major subsidiary of the Group.

44. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

(f) Purchase of buildings

On 26 September 2008, the Group entered into an agreement in relation to the purchase of buildings with Henan Lianda Property Company Limited# ("**Henan Lianda**")（河南聯大置業有限公司） at a consideration of approximately HK$55.5 million (equivalent to approximately RMB47.0 million). A director of the Company at that time was a shareholder and a director of this company as at the date of the agreement. The director of the Company then ceased to be the shareholder and director of this company on 31 March 2010. On 7 December 2011, this director resigned as a director of the Company while he is still a director of certain subsidiaries of the Group. As at 31 December 2012, the buildings are still under construction and have not yet been transferred to the Group. As at 31 December 2012, included in prepayments, deposits and other receivables are deposits amounted to approximately HK$54.1 million (equivalent to RMB43.5 million) (2011: approximately HK$53.8 million (equivalent to RMB43.5 million)) arising from the purchase of buildings from Henan Lianda. The remaining balance of approximately HK$4.4 million (equivalent to approximately RMB3.5 million) (2011: approximately HK$4.3 million (equivalent to approximately RMB3.5 million)) was included in the capital commitments of the Group as at 31 December 2012.

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(g) Disposal of a subsidiary

During the year, the Group disposed of the Popular Sky Group to a related party, Dragon Rich, for a total consideration of HK$71.2 million (2011: Nil) as described in notes 1, 10 and 40(b).

45. NOTES TO THE STATEMENT OF CASH FLOWS – GROUP

Major non-cash transactions

During the year ended 31 December 2012, as mentioned in note 24, deposits paid as at 31 December 2011 of approximately HK$75.3 million (equivalent to RMB60.5 million) was reallocated from deposits paid for potential investments to other receivables upon finalisation of the consideration regarding the acquisition of the property investment business.

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

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

(a) Credit risk

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

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(a) Credit risk (Continued)

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

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

The credit risk regarding available-for-sale financial assets is limited as it is issued by a major bank in the PRC. The credit risk on pledged bank deposits and cash and cash equivalents is also limited because the Group's pledged bank deposits and cash and cash equivalents are all deposited with major banks located in Hong Kong and the PRC.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has a certain concentration of credit risk as 93.1% (2011: 87.8%) of the Group's accounts receivable was due from the Group's largest customer. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from accounts receivables is set out in note 26.

At each reporting date, the Group reviews deposits and other receivables for evidence of impairment on an individual and collective bases. As at 31 December 2012, the Group determined deposits of approximately HK$3.7 million as individually impaired (2011: approximately HK$3.6 million). Based on this assessment, impairment loss of approximately HK$3.6 million was recognised during the year ended 31 December 2011. No impairment loss was recognised during the year.

(b) Interest rate risk

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

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

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Interest rate risk (Continued)

Sensitivity analysis

The following table illustrates the sensitivity of the Group's (loss)/profit after tax and retained profits and the Company's loss after tax and accumulated losses to a possible change in interest rates of +/- 0.5% (2011:+/- 0.5%), with effect from the beginning of the year. The calculations are based on the Group's bank balances held at the reporting date. All other variables are held constant.

	Group			Company	
	Loss after tax HK$'000	**Profit after tax** HK$'000	**Retained profits** HK$'000	**Loss after tax** HK$'000	**Accumulated losses** HK$'000
31 December 2012					
+0.5%	(2,439)	N/A	2,439	(14)	(14)
–0.5%	2,439	N/A	(2,439)	14	14
31 December 2011					
+0.5%	N/A	2,620	2,620	(19)	(19)
–0.5%	N/A	(2,620)	(2,620)	19	19

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

The sensitivity analysis included in the financial statements of the year ended 31 December 2011 has been prepared on the same basis.

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

(c) Foreign currency risk

The sales and purchases of the Group are predominantly in RMB which is the functional currency of the related group entities. The directors of the Company therefore are of the opinion that the Group's and Company's sensitivity to the changes in foreign currencies are low and the Group and Company do not hedge their foreign currency risk.

(d) Fair values

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

(e) Liquidity risk

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

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(e) Liquidity risk (Continued)

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

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

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

	Group At 31 December 2012					
	Within 6 months or on demand HK$'000	**6 – 12 months HK$'000**	**Over 1 year HK$'000**	**Total undiscounted amount HK$'000**	**Discount HK$'000**	**Carrying amount HK$'000**
Non-derivative financial liabilities						
Accounts and bills payables	**569,764**	**–**	**–**	**569,764**	**–**	**569,764**
Other payables and accruals	**306,857**	**–**	**–**	**306,857**	**–**	**306,857**
Bank loans	**626,888**	**101,592**	**–**	**728,480**	**(19,172)**	**709,308**
Convertible bonds	**4,037**	**4,148**	**191,815**	**200,000**	**(15,950)**	**184,050**
Total	**1,507,546**	**105,740**	**191,815**	**1,805,101**	**(35,122)**	**1,769,979**

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

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(e) Liquidity risk (Continued)

	Company At 31 December 2012					
	Within 6 months or on demand HK$'000	6 – 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Discount HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Other payables and accruals	**6,362**	**–**	**–**	**6,362**	**–**	**6,362**
Convertible bonds	**4,037**	**4,148**	**191,815**	**200,000**	**(15,950)**	**184,050**
Total	**10,399**	**4,148**	**191,815**	**206,362**	**(15,950)**	**190,412**

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

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and Company's financial assets and liabilities recognised as at 31 December 2011 and 2012 may also be categorised as follows. See notes 3.16 and 3.22 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Non-current				
Loans and receivable				
– Deposits paid for potential investments	**68,442**	162,560	**–**	–
Current				
Available-for-sale financial assets	**24,888**	–	**–**	–
Loans and receivable				
– Accounts and bills receivables	**521,637**	468,277	**–**	–
– Deposits and other receivables	**422,474**	291,106	**–**	–
– Pledged bank deposits	**318,815**	106,926	**–**	–
– Cash and cash equivalents	**633,273**	697,902	**3,733**	4,322
	1,989,529	1,726,771	**3,733**	4,322
Financial liabilities				
Financial liabilities measured at amortised cost				
– Accounts and bills payables	**569,764**	121,487	**–**	–
– Other payables and accruals	**306,857**	273,928	**6,362**	4,057
– Bank loans	**709,308**	593,376	**–**	–
– Convertible bonds	**184,050**	176,253	**184,050**	176,253
	1,769,979	1,165,044	**190,412**	180,310

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

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

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

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

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

	2012 – Group			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Available-for-sale financial assets – Structured deposit in the PRC	–	24,888	–	24,888

	2011 – Group			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale financial assets – Structured deposit in the PRC	–	–	–	–

As at 31 December 2011 and 2012, the Company had no financial assets and liabilities that were measured at fair value.

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(h) Business risk

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

47. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

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

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity of approximately HK$1,482.1 million (2011: approximately HK$1,862.2 million) as capital, for capital management purpose.

48. SUBSEQUENT EVENTS

On 14 January 2013, Kaisheng entered into an agreement (the "**Agreement**") with independent third parties of the Group, i.e. existing shareholders of Beijing Baiyitong Technology Co., Ltd.# ("**Baiyitong**")(北京佰鎰通科技有限公司), to inject the additional registered capital of Baiyitong at a total cash consideration of approximately HK$37.8 million (equivalent to RMB30.0 million) by stages. According to the Agreement, Kaisheng is entitled to 34% of equity interests of Baiyitong when the first capital injection is completed. Up to the date of this report, first capital injection by Kaisheng in the amount of approximately HK$15.1 million (equivalent to RMB12.0 million) has been completed. Baiyitong is a company incorporated in the PRC and is principally engaged in providing software operation services.

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