LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED

樓東俊安資源(中國)控股有限公司

(Incorporated in Bermuda with limited liability)

（於百慕達註冊成立之有限公司）

2012

Annual Report 年報

Stock Code 股份代號：00988

Contents

Corporate Information

EXECUTIVE DIRECTORS

Cai Sui Xin *(Chairman)*
Zhao Cheng Shu *(Deputy Chairman)*
Lau Yu *(Chief Executive Officer)*
Ng Tze For
Li Xiao Juan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Xiao Long
Choy So Yuk, *JP*
Gao Wen Ping
Leung Yuen Wing

AUDIT COMMITTEE

Leung Yuen Wing *(chairman)*
Li Xiao Long
Choy So Yuk, *JP*
Gao Wen Ping

EXECUTIVE COMMITTEE

Lau Yu *(chairman)*
Zhao Cheng Shu
Ng Tze For
Li Xiao Juan

NOMINATION COMMITTEE

Cai Sui Xin *(chairman)*
Zhao Cheng Shu
Li Xiao Long
Choy So Yuk, *JP*
Gao Wen Ping
Leung Yuen Wing

REMUNERATION COMMITTEE

Choy So Yuk, *JP (chairman)*
Li Xiao Long
Gao Wen Ping
Leung Yuen Wing

AUTHORISED REPRESENTATIVES

Ng Tze For
Kwok Kam Tim

COMPANY SECRETARY

Kwok Kam Tim

AUDITOR

Ascenda Cachet CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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103 Leighton Road
Causeway Bay
Hong Kong
Website: http://www.ldgnr.com
E-mail: enquiry@ldgnr.com

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

ADR DEPOSITARY

The Bank of New York Mellon Corporation
101 Barclay Street
22nd Floor
New York
NY 10286
USA

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.,
Hong Kong Branch
Citic Bank International Limited
DBS Bank (Hong Kong) Limited

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Loudong General Nice Resources (China) Holdings Limited (the "Company"), I am pleased to present to you the annual report of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2012 (the "Review Period").

In the Review Period, the Group's revenue and gross profit amounted to approximately HK$2,233,316,000 and HK$447,156,000 respectively. Profit attributable to owners of the Company for the Review Period amounted to approximately HK$138,478,000, recorded a decrease of approximately 52.44% as compared to the corresponding period in 2011. For the year ended 31 December 2012, basic earnings per share for continuing operations has recorded HK$0.06, as compared to basic earnings per share of HK$0.13 in 2011.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

CHALLENGING MARKET ENVIRONMENT

In 2012, a combination of the tepid domestic market, high raw material costs and poor export market have led to 42.5% of the 350 coking enterprises in China dipped into loss-making situation. The profit margin of the whole Chinese coking sector was badly squeezed by the high cost of coking coal supplies and flat-to-lower coke selling price during the year. Coking coal is a key ingredient in making metallurgical coke, largely used as a fuel in blast furnace steel production.

China used to be the world's largest exporter of coke, but its coke export has dried up in the past few years, and last year reported a further 69% drop in export shipments to about 1 million tonnes from a year earlier. Although exports accounted for a small portion of total coke production in China, the continued poor export markets have further reduced Chinese coke producers' sales outlets, thus leading to added pressure on selling price.

Amidst such challenging circumstances, I am pleased that the Group has outperformed many of its rivals to deliver a profitable year despite substantially lower than previous year. The result was achieved thanks to the Group's integrated production chain in coal washing, coking and heal-power generation, along with the higher value-added by-products of coke-chemicals production.

To sustain long-term stable growth, the Group will continue to upgrade its production facilities and enhance its production chain to move upstream, in line with the Chinese government industrial and environmental policies. The Company will pay close attention on market evolution while enhancing the coordination and communication with customers, striving to expand sales, strengthening the cost control, and in the end converting this market evolution into opportunity to sustain the Company's growth.

EMPHASIS ENVIRONMENTAL AWARENESS

Due to the rapid growth of the economic development in China, environmental awareness becomes a crucial issue among the country. The National Energy Administration recently issued the coal industry policies (revised version), which vigorously promote the coal bed methane utilization of the work, protecting mine safe and environment, and economical use of energy. Under the framework of strengthening environmental protection, small coking facilities, which cannot meet the emission and efficiency standard, will be subject to strict reorganization and elimination process in the next few years.

Chairman's Statement

In line with the central government policy, Shanxi provincial government had initiated a consolidation program in the coking industry in 2012 that require all coking facilities to meet a minimum 2 million-tonne production capacity and certain standards on the furnaces/oven used by 2015. To cope with this policy, the Group has signed a memorandum of understanding with a local partner in March 2013 to develop a 2.2 million-tonne coking plant in Xiaoyi, Shanxi.

The Group will further improve the production chain and seek for upstream integration to build up stable coal supply. The acquisition of 30% equity interest of Shanxi Linxian Taiye Coal Mining Company Limited (now known as Shanxi Loujun Group Taiye Coal Mining Company Limited) is proceeding, and the proposed acquisition of 30% equity interest of Shanxi LvLiang Lishi Dan Tan Gou Mining Company Limited is still in negotiation. In addition, the Group will continue to identify quality coal investment projects to achieve its target of become fully integrated coal and coke enterprise.

LOOKING AHEAD

Last year, China's annual coke production and consumption amounted to about 443 and 442 million tonnes respectively, representing a mild increase of 5.2% and 5.8% respectively over preceding year, according to figures from the State Statistical Bureau. China Coking Industry Association believed that the coking industry has potential for further growth in the years ahead and estimated that the total production and demand of metallurgical coke in China will break through the 450-million-tonnes mark for the first time in 2013.

According to the report of 18th China National Congress of the Chinese Communist Party, China emphasized to remove major structural barriers to sustained and sound economic development, and to accelerate the change of the growth model. China will keep boosting domestic demand and expand the domestic market, and will adopt policies and measures to better facilitate the development of the real economy. Also, due to the government gradually initiated and approved a large number of infrastructure investment projects, the demand of iron, steel, cement and electricity will increase. Currently, the blast furnace steelmaking process is still widely adopted by majority of steelmakers, and thus the demand of coke is expected to continue growing. The Group is confident in the long-term development of the coal and coking industry and will continue to develop the Group to become one of the leading integrated coal and coke producers in China.

On behalf of the Board, I would like to express our sincere appreciation to our shareholders and business partners as well as the significant contribution of our committed staff members in the past year. Looking forward, we are continuously committed to maintain a high level of corporate governance and transparency, and strive to create sound return to the enterprises and the shareholders.

Chairman
Cai Sui Xin

26 March 2013

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 December 2012, the Group recorded revenue from operations of approximately HK$2,233,316,000 (2011: approximately HK$2,559,575,000), representing a 12.75% decrease from the previous year.

Profit attributable to owners of the Company for the year ended 31 December 2012 was approximately HK$138,478,000, compared with a profit attributable to owners of the Company of approximately HK$291,152,000 in 2011. The profit slide was primarily attributable to the drop in sales volume, a lower selling price of metallurgical coke and high cost of key raw material, coking coal, amidst a slowing global economy and a tepid domestic market in China.

BUSINESS REVIEW

In 2012, the metallurgical coke industry in China has entered into a wintry stage. Affected by the over expansion of production capacity throughout China in past years, and weak demand of downstream sectors, the selling price of metallurgical coke was progressively decreased from the start of the year, and reached its lowest point in the third quarter of 2012. Total tonnage of metallurgical coke sold in the year amounted to about 1,188,000 tonnes, representing a mild 6% decrease from the preceding year. Coupled with this was a relatively high cost of coking coal supplies, which gradually nibbled the profit margin of the Group. As a result, the Group's gross profit decreased to approximately HK$447,156,000 for the year ended 31 December 2012 from approximately HK$783,551,000 recorded in 2011.

As of 31 December 2012, the Group's total equity increased by about 5.42% to approximately HK$3,940,181,000 from approximately HK$3,737,523,000 recorded in 2011, with gearing ratio stood at a healthy 25% (31 December 2011: 19%).

The debtor's turnover day of the Group in 2012 was 77 days compared with 44 days in 2011. In order to maintain long-term business relationship with some of the key customers, the Company has extended the credit period for those credit-worthy customers to cope with their trade cycle during a slowing economy and lukewarm downstream demand of the steel industry. In general, the management of the Group adopts a prudent credit policy to its customers by closely monitoring their repayment status and consistently reviews their credit terms. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. If the balance due from debtors becomes doubtful, appropriate doubtful debt provision will be provided for.

In March 2012, the Board proposed a bonus issue on the basis of 2 bonus shares for every 10 existing shares to the shareholders (the "Bonus Issue") in recognition of their continual support. The shareholders approved the Bonus Issue at the annual general meeting held on 30 May 2012 and a total of 388,202,780 bonus shares were issued.

In August 2012, the Company completed placing of 60,000,000 new shares of the Company and raised net proceeds of approximate HK$22.54 million for general working capital of the Group.

Management Discussion and Analysis

OUTLOOK AND BUSINESS STRATEGY

China is entering a pivotal period in 2013 under the new leadership while the economic growth will be the main concern for the new leaders. During the 18th National Congress of the Chinese Communist Party, members of the new Chinese leadership instructed areas of future growth which includes: i) urbanization; ii) agricultural modernization; iii) upgrading industrial technologies and information technology and iv) environmental conservation. To stimulate the economic growth with the urbanization, the Chinese government initiated and approved a large number of urban infrastructure investment projects since September 2012. These investment projects will likely gain momentum in 2013 and also inevitably increase the demand of energy and raw materials, such as coal, steel, cement and electricity.

To achieve its target to build a complete value chain in the coal and coke industry, vertically integrating the operations from mining, manufacturing, transporting to distributing the coke and coal related chemical products, the Company insists in the merger and acquisition of the upstream coal and coke business, as well as the downstream chemical, clean energy and logistics projects, to further improve the production chain and to grasp the opportunities of the new period. The acquisition of 30% equity interest of Shanxi Linxian Taiye Coal Mining Company Limited (now known as Shanxi Loujun Group Taiye Coal Mining Company Limited) is proceeding, this mining acquisition marks a key milestone for the Group to achieve its target to become fully integrated coal and coke enterprise in China. The Group will identify suitable projects to capture the opportunities to expand its coal mining business.

In order to sustain long-term healthy growth of the economy, the Shanxi provincial government has launched a policy to consolidate the coking industry, after the successful consolidation program of the coal mining sector, as coal and coking are the two major economic pillars of the province. The policy is set to consolidate the over-capacity coking industry by eliminating coking capacities of less than 2 million tonnes, and players with fall behind technology. To follow the provincial consolidation program on coking plants, Shanxi Loudong – General Nice Coking & Gas Co., Ltd, the principal subsidiary of the Company and currently one of the largest coking facilities in the region with approved coking capacity of 1.2 million tonnes/year has entered into a memorandum of understanding with another local partner on 19 March 2013 to form a joint venture to develop a new technology coking plant with annual production capacity of 2.2 million tonnes. Along this direction, the Company is determined to achieve our goal to become one of the leading integrated coal and coke enterprises in China in the foreseeable future. As such, the Company has been cautiously optimistic about its future development.

On the other hand, although it is a challenging year for the business, it provides a chance for the Company to widen its market share. In economic downturn, weak players in the market will be eliminated. Thus, through our experienced management, and as one of the top coking enterprises in Shanxi, which is China's top coal and coke producing province, the Company would convert this challenge into opportunity to sustain its growth.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2012, the Group had total bank borrowings in the amount of HK$1,096,278,000 (2011: HK$679,619,000), representing an increase of HK$416,659,000. The maturity profile of the Group's bank borrowings of HK$1,096,278,000 was spread with HK$1,093,815,000 repayable within 1 year and HK$2,463,000 repayable in the second year.

The Group's total bank borrowings of HK$1,096,278,000 were 99% denominated in Renminbi ("RMB") with fixed interest rate and 1% denominated in Hong Kong dollars ("HK$") with floating interest rate. The Group's cash and bank balances of HK$32,395,000 were 69% denominated in RMB, 2% in USD and 29% in HK$.

TREASURY POLICY

The Group adopts a conservative approach towards its treasury policy. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial condition of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, there was no material acquisition or disposal of subsidiaries and affiliated companies.

EMPLOYEES

As at 31 December 2012, the total number of employees of the Group was approximately 1,420 (2011: 1,450). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. The Group also has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. As at 31 December 2012, there were 4,486,245, which was being adjusted after the issuance of bonus shares during the year, (2011: 3,852,024) outstanding share options granted under such scheme.

CHARGE OF GROUP ASSETS

As at 31 December 2012, the Group pledged bank deposits of approximately HK$983,149,000 (2011: HK$1,075,586,000) and a property with a carrying value of approximately HK$14,725,000 (2011:15,048,000) as securities for the Group's banking facilities.

GEARING RATIO

As at 31 December 2012, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 25% (2011: 19%). Net debt represents the aggregate amount of the Group's interest-bearing bank and other borrowings, the non-current portion of the amount due to related parties and promissory note less cash and cash equivalents of the Group. Total capital represents total equity of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's reporting currency is denominated in HK$. The Group's monetary assets, loans and transactions were principally denominated in RMB, USD and HK$. The Group had a net exchange exposure to RMB as the Group's assets were principally located in China and the revenues were in RMB.

The Group does not have any derivative financial instruments or hedging instruments. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2012 (2011: Nil).

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cai Sui Xin, aged 51, was appointed an executive director of the Company with effect from 19 September 2008. He is also the chairman of the Company and the nomination committee of the Company, director of certain subsidiaries of the Company, including Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Shanxi Loudong"). Mr. Cai is the founder and chairman of General Nice Development Limited ("GND"), General Nice Resources (Hong Kong) Limited ("GNR") and General Nice (Tianjin) Industry Company Limited (collectively "General Nice"). General Nice has developed into two main segments of business, the first segment involves the mining of coal, coal washing, coke manufacturing, logistic business for coke and coal, and the sale of coal, coking coal and coke; the second segment involves the exploration of iron ore mines and the importing of iron ore into the People's Republic of China (the "PRC"). With Mr. Cai's well-established business relationship in Tianjin and Shanxi, General Nice has expanded to one of the PRC's biggest private producers and operators of metallurgical coke. Mr. Cai is the executive chairman and an executive director of Abterra Ltd ("Abterra") and Digiland International Ltd ("Digiland"), both companies listed on the Singapore Exchange Securities Trading Limited. Mr. Cai is also a director of General Nice Investment (China) Limited ("GNI") and General Nice Group Holdings Limited ("GNG"). GND, GNI and GNG have direct or indirect controlling interest in GNR, a substantial shareholder of the Company.

Mr. Zhao Cheng Shu, aged 49, was appointed an executive director of the Company on 2 April 2009. He is also the deputy chairman of the Company and a member of the executive committee and the nomination committee of the Company. Mr. Zhao is an economist and a senior engineer and has accumulated over 20 years of experience in the management of sizeable enterprises in the PRC. He is a specialist in corporate management and an entrepreneur. Currently he is a director and the general manager of Shanxi Loudong, and a director of a subsidiary of the Company. He is responsible for overall management and operations of Shanxi Loudong. Besides, Mr. Zhao is the general manager of Xiaoyi Loudong Industry and Trading Group Company ("Xiaoyi Loudong") and a director of Hing Lou Resources Limited ("Hing Lou"), which is a subsidiary of Xiaoyi Loudong and is a substantial shareholder of the Company. He is also the Vice President of the Federation of Young Entrepreneurs of Shanxi Province, Standing Committee of the Political Consultative Conference and Representative to the National People's Congress of Xiaoyi City of Shanxi Province, Deputy Chairman of the Chamber of Industrial and Commerce of Xiaoyi City of Shanxi Province, Member of the Committee of the Political Consultative Conference of Luiliang City of Shanxi Province etc. Mr. Zhao has contributed a lot to the society and thus been awarded many honourable titles and prizes, including "Advance Worker Assisting Economic Development of Private Enterprises of Luiliang City of Shanxi Province", "Outstanding Entrepreneur of Private Enterprise of Shanxi Province", "Young Leader of Special Technology of Luiliang City of Shanxi Province", "Outstanding Person in Pushing Relief from Poverty for the Society", "Role Model for Labour in Shanxi Province", "National Model for Labour ", "Ethical Role Model", "Medalist of Labour Day in Shanxi Province" and "Medalist of Labour Day in the Nation" etc. Mr. Zhao holds a Master degree in Enterprise Management specialising in Industrial Economics awarded by the Graduate School of China Institute of Social Science (中國社會科學院).

Mr. Lau Yu, aged 44, was appointed an executive director of the Company with effect from 22 September 2008. He is also the chief executive officer, the chairman of the executive committee of the Company and director of certain subsidiaries of the Company, including Shanxi Loudong. Mr. Lau has over 20 years of solid experience in international trading of mineral resources and metals, including coal, coke, iron ore and steel. With his extensive experience in the trading of coke and metallurgy, Mr. Lau has established strong relationships with customers in India, Australia, South Africa, Venezuela and Brazil. Mr. Lau is the chief executive officer and an executive director of Abterra, an executive director, vice chairman of the board of directors and a member of audit committee, nominating committee and remuneration committee of Digiland. He is also the chief executive officer and a director of GNR, a substantial shareholder of the Company. Mr. Lau holds a Bachelor of Business Administration degree from the School of Finance in University of Hawaii in the United States of America.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS (continued)

Mr. Ng Tze For, aged 51, was appointed an executive director of the Company with effect from 11 September 2008. He is also a member of the executive committee of the Company and director of certain subsidiaries of the Company. Besides, Mr. Ng is currently the chief financial officer of GNR, a substantial shareholder of the Company, and Abterra Group (Abterra and its subsidiaries). He has more than 25 years experience in banking, corporate finance, business development and strategy planning for a number of international banks and listed companies in Hong Kong, Beijing and Shanghai. Mr. Ng graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree and obtained a Master Degree in Business Administration from City University of Hong Kong.

Ms. Li Xiao Juan, aged 32, was appointed an executive director of the Company on 30 March 2009. She is currently a member of the executive committee of the Company, the deputy general manager of Shanxi Loudong and director of certain subsidiaries of the Company. Ms. Li is mainly responsible for the corporate finance of Shanxi Loudong. Besides, Ms. Li is currently the deputy general manager of GNR and a director of Hing Lou. Both GNR and Hing Lou are the substantial shareholders of the Company. Ms. Li graduated from Fu Dan University (復旦大學) in the PRC with a Bachelor's degree in Economics and subsequently obtained a Master of Science degree in Investments from the University of Birmingham in the United Kingdom.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Xiao Long, aged 52, was appointed an independent non-executive director of the Company on 20 February 2009. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Li is currently the managing director of Fei&Long Consulting und Handels GmbH in Germany where he provides consultation to clients on international trade. His clients are mainly machinery manufacturers in Europe having business with Chinese companies. His previous employments included managerial positions in a mineral resources company in Beijing and some insurance companies in the PRC. With his valuable experience in international business, in 2006 he was appointed the Economic Adviser to the Development and Reformation Committee of Shanxi Province in the PRC (中國山西省發展改革委員會).

Ms. Choy So Yuk, *JP*, aged 62, was appointed an independent non-executive director of the Company on 5 June 2009. She is also a member of the audit committee and the nomination committee and the chairman of remuneration committee of the Company. She obtained her Bachelor of Science and Master of Philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a wide variety of political, social and academic positions, such as a deputy of the National People's Congress of China and a director of Fujian Middle School. Ms. Choy was a member of the Legislative Council in Hong Kong from 1998 to 2008 and a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference. Ms. Choy is currently an independent non-executive director of Huafeng Group Holdings Limited (stock code: 364) since its listing on the Stock Exchange of Hong Kong Limited ("HKEX") on 30 August 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. Gao Wen Ping, aged 50, was appointed an independent non-executive director of the Company on 18 October 2010. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Gao graduated from the Department of Chinese of HuaZhong Normal University in China with a Master of Arts degree. Mr. Gao had been an associate professor of Lvliang University and had served as the deputy county magistrate of Linxian, LvLiang City of Shanxi Province, the deputy secretary of Liulin County, Shanxi Province, the deputy officer of the Department of Commerce of Shanxi Province, a director of Foreign Investment Association and a professor of the Faculty of Law of University of Finance and Economics for over 20 years and has extensive experience in economics, trading, investment and enterprises management.

Mr. Leung Yuen Wing, aged 45, was appointed an independent non-executive director of the Company on 1 November 2012. He is also the chairman of the audit committee, a member of the remuneration committee and the nomination committee of the Company. Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Chartered Association of Certified Accountants. He had held managerial positions in various renowned accounting firms, an investment bank and listed companies. Mr. Leung is currently the finance director of Samvo Group whose headquarters is in London and engaged in the online entertainment business. Prior to joining Samvo Group in February 2010, Mr. Leung was the company secretary and an authorized representative of the Company, the financial controller of General Nice and the chief financial officer of Abterra. He is also an independent non-executive director, the chairman of the audit committee and the remuneration committee and a member of the nomination committee of PME Group Limited (stock code: 379), a company listed on the main board of HKEX.

SENIOR MANAGEMENT

Mr. Kwok Kam Tim, aged 36, joined the Company in 2008 and was appointed the company secretary and an authorised representative of the Company in February 2010. Mr. Kwok is also the financial controller of the Company. He is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Kwok holds a Bachelor of Arts degree in Accounting from The Hong Kong Polytechnic University, and a Bachelor of Engineering degree from The University of Hong Kong Science and Technology. He had worked in an international accounting firm and has over 10 years of experience in accounting, auditing and financial management. Currently, Mr. Kwok is an independent non-executive director of Ming Kei Holdings Limited (stock code: 8239) and Newtree Group Holdings Limited (stock code: 1323), the shares of which are listed on the growth enterprise market and the main board of the HKEX respectively.

Corporate Governance Report

For the year ended 31 December 2012

The board of directors of the Company (the “Board”) is pleased to present the corporate governance report for the year ended 31 December 2012.

A. CORPORATE GOVERNANCE PRACTICES

The Board is committed to raising the standard of corporate governance within the Group at all times and believes that good corporate governance helps the Group safeguard the interests of its shareholders and improve its performance.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has revised and renamed the Code on Corporate Governance Practices (the “Former Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) to Corporate Governance Code (the “New Code”) effective from 1 April 2012. The Board strives to implement the best practices embodies in the Former Code/New Code where feasible and as far as practicable.

In the opinion of the directors of the Company (the “Directors”), the Company has complied with the respective code provisions of the Former Code and the New Code (collectively the “Code”) for the relevant periods in which they are in force during the year ended 31 December 2012, except for the following deviations:

Code provision A.2.7

Under code provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.

During the year ended 31 December 2012, the chairman of the Company (the “Chairman”) held meetings in China with two independent non-executive Directors (the “INEDs “) without the executive Directors present. As the time schedule of the Chairman in China was tight and the meetings had not been arranged in advance, the other two INEDs had not joined the meetings. However, the INEDs may request the Chairman to hold meeting without the executive Directors present any time when they think required.

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing INEDs was appointed for a specific term. However, all Directors are subject to the retirement provisions in the bye-laws of the Company (the “Bye-laws”) which provides that one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement at least once every three years.

Code Provisions A.6.7 and E.1.2

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. In addition, code provision E.1.2 provides that the chairman of the board should attend the annual general meeting.

The INEDs, Mr. Gao Wen Ping, Mr. Li Xiao Long and Ms. Choy So Yuk were not in Hong Kong and therefore had not attended the annual general meeting of the Company held on 30 May 2012 (the “2012 AGM”). Due to other commitments which must be attended to by the Chairman, the Chairman was also unable to attend the 2012 AGM. However, Mr. Ng Tze For, an executive Director, attended and took the chair of the 2012 AGM, and Mr. Kwok Man To Paul, the then INED, the chairman of the audit committee (the “Audit Committee”) and a member of the nomination committee (the “Nomination Committee”) and the remuneration committee (the “Remuneration Committee”) of the Company, attended the 2012 AGM and answered questions from the shareholders of the Company. The auditor of the Company, Ascenda Cachet CPA Limited, also attended the 2012 AGM.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2012.

C. BOARD OF DIRECTORS

The Board currently comprises five executive Directors, namely Mr. Cai Sui Xin (the Chairman), Mr. Zhao Cheng Shu, Mr. Lau Yu, Mr. Ng Tze For and Ms. Li Xiao Juan and four INEDs, namely Mr. Li Xiao Long, Ms. Choy So Yuk, Mr. Gao Wen Ping and Mr. Leung Yuen Wing.

The Board, led by the Chairman, is responsible for formulating the Group's overall strategy, sets the business directions and monitors the performance of the Group's businesses. The Board is accountable to the shareholders of the Company for its performance and activities and is the ultimate decision making body of the Group except for those matters that are reserved for approval by shareholders in accordance with the Bye-laws, the Listing Rules and other applicable laws and regulations.

The management has been delegated the authority and responsibility by the Board for the day-to-day operations and management of the Group. It works under the leadership and supervision of the chief executive officer to implement the Board's decisions, makes business proposals and is accountable to the Board. In addition, the Board has delegated various responsibilities to Board committees, further details of these committees are set out in this report. The Board reserves the authority to approve interim and annual financial statements, dividend policy, business plans and material investment decisions.

During the year, 5 Board meetings and the 2012 AGM were held. The attendance records of individual Director are as follows:

	Number of meetings attended/held	
Directors	**Board Meetings**	**2012 AGM**
Executive Directors		
Mr. Cai Sui Xin *(Chairman)*	2/5	0/1
Mr. Zhao Cheng Shu *(Deputy Chairman)*	5/5	1/1
Mr. Lau Yu *(Chief Executive Officer)*	5/5	0/1
Mr. Ng Tze For	5/5	1/1
Ms. Li Xiao Juan	4/5	0/1
Independent Non-executive Directors		
Mr. Li Xiao Long	5/5	0/1
Ms. Choy So Yuk	5/5	0/1
Mr. Gao Wen Ping	5/5	0/1
Mr. Leung Yuen Wing (appointed on 1 November 2012)	1/1	0/0
Mr. Kwok Man To Paul (resigned on 1 November 2012)	3/4	1/1

Throughout the year ended 31 December 2012, the Company met at all times the requirements of the Listing Rules to have at least three INEDs representing at least one-third of the Board and with at least one INED possessing appropriate accounting and financial management expertise and professional qualifications.

The Company has received from its INEDs annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the INEDs are independent.

Biographical details of all Directors are disclosed in the section headed "Biography of Directors and Senior Management" in this Annual Report. To the best knowledge of the Company, there are no financial, business, family or other material or relevant relationships amongst members of the Board.

Pursuant to code provision A.6.5 of the New Code, all directors should participate in continuous professional development to refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

An induction would be given to the newly appointed Director to provide information regarding the business and operation of the Company and as well as his responsibilities under the Listing Rules and relevant regulations.

The Company also provides reading materials to the Directors and updates them on the latest developments and changes to the Listing Rules, the applicable laws and regulations relating to directors' duties and responsibilities.

During the year under review, the Company arranged its solicitor to provide seminar to the Directors on the New Code and update them on the relevant Listing Rules. All Directors, except Mr. Leung Yuen Wing who was not yet appointed a Director at the relevant time, attended the seminar. Mr. Leung attended training courses relevant to his profession and duties as a director.

Directors' training is an ongoing process, all Directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide records of training they received to the company secretary of the Company (the "Company Secretary") for records.

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code requires that the roles of chairman and chief executive officer should be separated and performed by different individuals.

Mr. Cai Sui Xin is the Chairman while Mr. Lau Yu acts as the chief executive officer of the Company. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and ensuring that good corporate governance practices and procedures are established. The chief executive officer is responsible for the day-to-day management and operation of the Group's business. The roles of the Chairman and the chief executive officer are segregated to ensure their respective independence, accountability and responsibility.

E. NON-EXECUTIVE DIRECTORS

As mentioned in Paragraph A above, the existing INEDs are not appointed for a specific term but are subject to the retirement provisions in the Bye-laws which provides that every Director (including the INEDs) shall be subject to retirement at least once every three years.

F. BOARD COMMITTEES

The Board has established four committees, details of which are set out below.

Executive Committee

The executive committee (the "Executive Committee") currently comprises four executive Directors, namely Mr. Lau Yu (the chairman), Mr. Zhao Cheng Shu, Mr. Ng Tze For and Ms. Li Xiao Juan. It was established to assist the Board in execution of its duties and to facilitate effective management. The Executive Committee has a written terms of reference under which certain functions, including the daily operation and management functions have been delegated to it.

Remuneration Committee

The Remuneration Committee currently comprises four INEDs, namely Ms. Choy So Yuk (as chairman), Mr. Li Xiao Long, Mr. Gao Wen Ping and Mr. Leung Yuen Wing. In March 2012, the Board adopted a set of the revised terms of reference which has included changes in line with the code provisions of the New Code. The revised terms of reference are available on the respective websites of the Company and the Stock Exchange.

The Remuneration Committee will meet at least once a year to discharge its responsibilities. The major roles of the Remuneration Committee are as follows:

(i) make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration; and

(iii) make recommendations with respect to the remuneration of the Directors and the senior management of the Company for approval by the Board.

The Group's remuneration policy has been formulated with reference to the market practice and the qualification, duties and responsibilities of Directors and employees. In order to attract, retain and motivate personnel of the required quality to manage the Company successfully, the Company adopted a share option scheme in 2007 to reward those eligible participants who contribute to the success of the Group's operations.

During the year, the Remuneration Committee held one meeting and the attendance of individual members of the Remuneration Committee at the meeting is set out below:

Committee Members	**Number of meetings attended/held**
Ms. Choy So Yuk *(chairman)*	1/1
Mr. Li Xiao Long	1/1
Mr. Gao Wen Ping	1/1
Mr. Leung Yuen Wing (became a member on 1 November 2012)	0/0
Mr. Kwok Man To Paul (ceased to be a member on 1 November 2012)	1/1

In addition to the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2012. In 2012, the Remuneration Committee considered the policy for the remuneration of the Directors, reviewed and made recommendation to the Board on the remuneration packages of the Directors and senior management and reviewed and recommended the remuneration package of the newly appointed INED for the Board's approval.

Nomination Committee

The Company established the Nomination Committee in March 2012 with written terms of reference in line with the code provisions of the New Code. The Nomination Committee currently comprises the Chairman, Mr. Cai Sui Xin, the deputy Chairman, Mr. Zhao Cheng Shu, and four INEDs, Mr. Li Xiao Long, Ms. Choy So Yuk, Mr. Gao Wen Ping and Mr. Leung Yuen Wing with the Chairman as its chairman. The terms of reference are available on the respective websites of the Company and the Stock Exchange.

The main duties and responsibilities of the Nomination Committee are as follows:

(i) review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) assess the independence of INEDs; and

(iv) make recommendations to the Board on the appointment or re-appointment of Directors.

Prior to its establishment, the role and function of the Nomination Committee were taken up by the Board as a whole.

During the year, the Nomination Committee held one meeting and the attendance of individual member of the Nomination Committee at the meeting is set out below:

Committee Members	**Number of meetings attended/held**
Mr. Cai Sui Xin *(chairman)*	0/1
Mr. Zhao Cheng Shu	1/1
Ms. Choy So Yuk	1/1
Mr. Li Xiao Long	1/1
Mr. Gao Wen Ping	1/1
Mr. Leung Yuen Wing (became a member on 1 November 2012)	0/0
Mr. Kwok Man To Paul (ceased to be a member on 1 November 2012)	1/1

In addition to the Committee meeting, the Nomination Committee also dealt with matters by way of circulation during 2012. In 2012, the Nomination Committee reviewed the structure, size and composition of the Board and the independence of INEDs and made recommendation to the Board the appointment of a new INED.

Audit Committee

The Audit Committee currently comprises four INEDs, namely Mr. Leung Yuen Wing (as chairman), Ms. Choy So Yuk, Mr. Li Xiao Long and Mr. Gao Wen Ping. In March 2012, the Board adopted a set of the revised terms of reference which has included changes in line with the code provisions of the New Code. The revised terms of reference are available on the respective websites of the Company and the Stock Exchange.

The major roles of the Audit Committee are as follows:

(i) consider and recommend the independence, remuneration, appointment, re-appointment and removal of external auditor;

(ii) review the independence and objectivity of the external auditor;

(iii) review financial and accounting policies and practices;

(iv) oversee financial reporting system and internal control procedures; and

(v) review connected party transactions.

During the year under review, the Audit Committee held three meetings to discuss internal control, financial reporting matters and other areas of concerns during the audit. The attendance record of individual member of the Audit Committee at these meetings is set out in the following table:

Committee Members	**Number of meetings attended/held**
Mr. Leung Yuen Wing (became a member and chairman on 1 November 2012)	1/1
Ms. Choy So Yuk	3/3
Mr. Li Xiao Long	3/3
Mr. Gao Wen Ping	3/3
Mr. Kwok Man To Paul (ceased to be a member and chairman on 1 November 2012)	2/2

The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The audited financial statements of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee before recommending it to the Board for approval.

G. CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance duties which include developing, reviewing and implementing the Company's policies, practices on corporate governance, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements and the shareholders' communication policy. During the year, the Board reviewed the Company's policies on corporate governance, compliance with the Code and disclosure in the corporate governance report and set up shareholders' communication policy.

H. AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit and non-audit services provided to the Company and its subsidiaries by the auditor of the Company amounted to HK$660,000 (2011:HK$620,000) and HK$12,000 (2011:HK$336,000) respectively.

I. FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the year ended 31 December 2012, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

The Directors confirm that, having made all reasonable enquiries, that to the best of their knowledge, information and belief, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement made by Ascenda Cachet CPA Limited, the independent auditor of the Company, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report " in this Annual Report.

J. INTERNAL CONTROL

The Board is responsible for overseeing the Company's internal control system.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposure. The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to identifying, monitoring and managing risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of the internal control system and is of the view that the internal control system adopted for the year ended 31 December 2012 is sound and effective to safeguard the interests of the shareholders' investments and the Company's assets.

The Board has also conducted an annual review on the effectiveness of the accounting and financial reporting function of the Company and takes the view that the Company possesses adequate resources, staff qualifications and experience, training programmes and budget in this regard.

K. COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. During the year under review, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

L. SHAREHOLDERS' RIGHTS

Convening a general meeting

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be signed by the requisitionists and deposit at the principal place of business of the Company in Hong Kong.

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

Putting enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary and deposit at the Company's principal place of business in Hong Kong or by e-mail to enquiry@ldgnr.com.

Putting forward proposal at general meeting

The shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to put forward proposals at an annual general meeting or special general meeting. The proposal must be made in writing and contain detail contact information and submit to the Company Secretary at the Company's principal place of business in Hong Kong. The procedure for putting forward proposals at general meeting is available on the website of the Company.

M. COMMUNICATION WITH SHAREHOLDERS

The Company acknowledges the importance of communicating with shareholders and investors and has adopted a shareholders' communication policy in March 2012. The primary communication channel between the Company and its shareholders is through the publication of announcements, circulars, interim and annual reports. These publications can be obtained from the Company's website.

In addition, Shareholders are encouraged to attend the Company's annual general meeting which provides a useful forum for shareholders to exchange views with the Board. Notice of annual general meeting together with the meeting materials are dispatched to all shareholders not less than 20 clear business days prior to the meeting. The Directors and external auditor are available to answer questions of the Group's business at the meeting. Separate resolutions are proposed at general meeting on each substantially separate issue, including the election of individual directors.

The Company has also complied with the requirements of the Listing Rules and the Bye-laws in respect of voting by poll and other related matters.

N. INVESTOR RELATIONS

At the 2012 AGM the Company has adopted the amended and restated Bye-laws which consolidated all of the proposed amendments set out in the 2012 AGM Notice and all previous amendments made pursuant to resolutions passed by the shareholders of the Company at general meetings bringing its Bye-laws in line with certain changes to the Listing Rules and to conform with the applicable laws in substitution for and to the exclusion of the existing Bye-laws. An updated version of the Bye-laws is available on the website of the Company.

Report of the Directors

The directors of Loudong General Nice Resources (China) Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 21 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 4 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 31 to 115.

The board of directors of the Company (the "Board") does not recommend payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on pages 117 to 118, which does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and investment property of the Group during the year are set out in notes 14 and 15 to the consolidated financial statements, respectively. Further details of the Group's investment property are set out on page 116.

CONSTRUCTION IN PROGRESS

Details of construction in progress of the Group are set out in note 14 to the consolidated financial statements on pages 70 to 73.

BANK BORROWINGS

Details of bank borrowings of the Company and the Group are set out in note 29 to the consolidated financial statements on pages 88 to 89.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 to the consolidated financial statements.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted approximately to HK$1,858,665,000 (2011: HK$1,854,699,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 78.76% (2011: 84.58%) of the total sales for the year and sales to the largest customer included therein amounted for 32.88% (2011: 43.69%). Purchases from the Group's five largest suppliers accounted for 97.72% (2011: 76.64%) of the total purchases for the year and purchases from the largest supplier included therein amounted for 68.90% (2011: 20.78%).

To the best knowledge of the directors of the Company (the "Directors"), none of the Directors or any of their associates or any shareholders holding more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are as follows:

Executive Directors:
Mr. Cai Sui Xin
Mr. Zhao Cheng Shu
Mr. Lau Yu
Mr. Ng Tze For
Ms. Li Xiao Juan

Independent non-executive Directors:
Mr. Li Xiao Long
Ms. Choy So Yuk
Mr. Gao Wen Ping
Mr. Leung Yuen Wing (appointed on 1 November 2012)
Mr. Kwok Man To Paul (resigned on 1 November 2012)

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Leung Yuen Wing will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election. In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Lau Yu, Ms. Li Xiao Juan and Mr. Zhao Cheng Shu will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company still considers all of its independent non-executive Directors to be independent.

MANAGEMENT CONTRACTS

No contract for management and administration of the whole or any substantial part of any business of the Company was entered into or existed during the year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 11.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are recommended by the remuneration committee of the Company and determined by the Board with reference to Directors' duties, responsibilities and performance of the Directors and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2012, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange:

Long positions in the shares and underlying shares of the Company

Name of Director	Number of ordinary shares Personal interests	Number of ordinary shares Corporate interests	Number of underlying shares subject to the outstanding share options	Total	Approximate percentage of the issued share capital
Mr. Cai Sui Xin	7,205,545	334,051,660 (Note)	–	341,257,205	14.28%
Mr. Zhao Cheng Shu	5,438,150	–	–	5,438,150	0.23%
Mr. Lau Yu	21,448,550	–	–	21,448,550	0.90%
Mr. Ng Tze For	–	–	3,942,457	3,942,457	0.17%
Ms. Li Xiao Juan	5,514,380	–	–	5,514,380	0.23%
Mr. Li Xiao Long	–	–	271,894	271,894	0.01%
Ms. Choy So Yuk	271,908	–	–	271,908	0.01%
Mr. Leung Yuen Wing	224,213	–	–	224,213	0.01%

Note: These shares are beneficially owned by General Nice Resources (Hong Kong) Limited ("GNR") and Mr. Cai Sui Xin is deemed to be interested in such shares under the SFO by virtue of the fact that each of General Nice Development Limited ("GND") and General Nice Investment (China) Limited ("GNI") holds 40% equity interest in GNR while General Nice Group Holdings Limited ("GNG") and Mr. Cai Sui Xin hold 50% and 5% equity interests in each of GND and GNI respectively. GNG is in turn wholly owned by Mr.Cai Sui Xin.

Save as disclosed above, as at 31 December 2012, none of the Directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors and chief executive" and "Share option scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 25 June 2007 for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole.

Details of the Scheme are set out in note 33 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

Save as disclosed under the section headed "Interests of Directors and chief executive" above, as at 31 December 2012, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the shares/underlying shares of the Company

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
GNR	Beneficial owner	Corporate interests	334,051,660	13.98%
GND	Interest of controlled corporation	Corporate interests	334,051,660 (Note 1)	13.98%
GNI	Interest of controlled corporation	Corporate interests	334,051,660 (Note 1)	13.98%
GNG	Interest of controlled corporation	Corporate interests	334,051,660 (Note 1)	13.98%
Tsoi Ming Chi	Interest of controlled corporation	Corporate interests	334,051,660 (Note 1)	13.98%
Hing Lou Resources Limited ("Hing Lou")	Beneficial owner	Corporate interests	321,858,177	13.47%
Xiaoyi Loudong Industry & Trading Group Company	Interest of controlled corporation	Corporate interests	321,858,177 (Note 2)	13.47%
Ng Ching Mui	Beneficial owner and interests of controlled corporation	Personal and corporate interests	132,010,798 (Note 3)	5.53%

Notes:

1. These shares are beneficially owned by GNR. Each of GND and GNI holds 40% equity interest in GNR while GNG and Mr. Tsoi Ming Chi hold 50% and 35% equity interests in each of GND and GNI respectively. Accordingly each of GND, GNI, GNG and Mr. Tsoi Ming Chi is deemed to be interested in such shares held by GNR under the SFO.

2. Xiaoyi Loudong Industry & Trading Group Company is deemed to be interested in the shares held by Hing Lou by virtue of the fact that Hing Lou is its wholly owned subsidiary.

3. According to the records of the Company, Ng Ching Mui held 110,008,999 shares of the Company at the record date of the bonus issue on basis of 2 bonus shares for every 10 shares. Based on the shareholding of 110,008,999 shares, Ng Ching Mui entitled to 22,001,799 bonus shares, her aggregated shareholding in the Company increased to 132,010,798 shares (representing 5.53% of the existing issued share capital of the Company).

Save as disclosed above, the Directors are not aware of any other persons who, at 31 December 2012, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2012 is contained in note 38 to the consolidated financial statements. During the year, there was no transaction which need to be disclosed as connected transaction in accordance with the requirements of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules from the date of the last annual report of the Company to the date of this annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Cai Sui Xin is also a director and beneficial owner of GND, GNR and General Nice (Tianjin) Industry Co. Ltd. ("GNT") which are also involved in the trading of coke and coal-related chemicals.

As the Board is independent from the board of directors of GND, GNR and GNT and the above Director does not control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of GND, GNR and GNT.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 12 to 21 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 42 to the consolidated financial statements.

AUDITOR

On 14 January 2011, the Board appointed Ascenda Cachet CPA Limited as auditor of the Company to fill the casual vacancy caused by the resignation of Ernst & Young until the conclusion of the 2011 annual general meeting. Save for the above, there were no other changes in the Company's auditors in the past three years.

A resolution for the reappointment of Ascenda Cachet CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Cai Sui Xin
Chairman

Hong Kong
26 March 2013

Independent Auditors' Report

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai, Hong Kong

To the shareholders of Loudong General Nice Resources (China) Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Loudong General Nice Resources (China) Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
26 March 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**2,233,316**	2,559,575
Cost of sales	6	**(1,786,160)**	(1,776,024)
Gross profit		**447,156**	783,551
Other income and gains	5	**33,156**	18,269
Selling and distribution expenses		**(69,279)**	(131,566)
Administrative expenses		**(129,108)**	(87,113)
Other operating expenses		**(20,521)**	(16,420)
Finance costs	7	**(67,736)**	(75,703)
PROFIT BEFORE TAX	6	**193,668**	491,018
Income tax expense	10	**(46,260)**	(181,700)
PROFIT FOR THE YEAR		**147,408**	309,318
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**32,605**	127,434
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**32,605**	127,434
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**180,013**	436,752
Profit attributable to:			
Owners of the Company	11	**138,478**	291,152
Non-controlling interests		**8,930**	18,166
		147,408	309,318
Total comprehensive income attributable to:			
Owners of the Company		**168,562**	412,179
Non-controlling interests		**11,451**	24,573
		180,013	436,752
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		(Restated)
Basic		**HK$0.06**	HK$0.13
Diluted		**HK$0.06**	HK$0.13

Details of the dividends payable and proposed for the year are disclosed in note 12 to the consolidated financial statements.

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,387,110**	2,449,500
Investment property	15	**10,716**	8,751
Prepaid land premiums	16	**36,479**	37,123
Investments in associates	17	**24,628**	24,392
Available-for-sale investments	18	**11,611**	11,500
Goodwill	19	**330,083**	330,083
Other long-term assets	20	**1,002,544**	463,203
Deferred tax assets	31	**11,092**	7,391
Due from an associate	38(b)	**174,633**	172,492
Total non-current assets		**3,988,896**	3,504,435
CURRENT ASSETS			
Inventories	22	**201,467**	322,579
Prepaid land premiums	16	**984**	963
Trade and bills receivables	23	**684,871**	252,866
Prepayments, deposits and other receivables	24	**669,097**	672,279
Equity investments at fair value through profit or loss	25	**1,244**	1,232
Due from related companies	38(b)	**41,330**	41,459
Pledged deposits	26	**983,149**	1,075,586
Cash and cash equivalents	26	**32,395**	12,337
Total current assets		**2,614,537**	2,379,301
CURRENT LIABILITIES			
Trade and bills payables	27	**865,483**	661,647
Other payables and accruals	28	**204,399**	191,934
Interest-bearing bank and other borrowings	29	**1,093,815**	640,876
Due to related companies	38(b)	**20,610**	180,974
Tax payable		**162,098**	196,485
Total current liabilities		**2,346,405**	1,871,916
NET CURRENT ASSETS		**268,132**	507,385
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,257,028**	4,011,820

Consolidated Statement of Financial Position

31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**2,463**	38,743
Loans from related companies	38(b)	**225,533**	137,765
Promissory note	30	**28,682**	44,445
Deferred tax liabilities	31	**60,169**	53,344
Total non-current liabilities		**316,847**	274,297
NET ASSETS		**3,940,181**	3,737,523
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	**23,892**	19,411
Exchange fluctuation reserve		**219,602**	189,518
Reserves	34(a)	**3,523,412**	3,366,770
		3,766,906	3,575,699
Non-controlling interests		**173,275**	161,824
Total equity		**3,940,181**	3,737,523

Cai Sui Xin
Director

Zhao Cheng Shu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the Company										
	Issued capital HK$'000 Note 32	Equity component of convertible notes HK$'000	Share option reserves* HK$'000 Note 33	Exchange fluctuation reserve HK$'000	Share premium account* HK$'000	Capital reserve* HK$'000 Note 34(a)(i)	Contribution surplus* HK$'000 Note 34(a)(ii)	Retained earnings* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	18,359	33,721	5,066	68,491	459,684	632,930	1,784,427	90,112	3,092,790	137,251	3,230,041
Profit for the year	–	–	–	–	–	–	–	291,152	291,152	18,166	309,318
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	121,027	–	–	–	–	121,027	6,407	127,434
Total comprehensive income for the year	–	–	–	121,027	–	–	–	291,152	412,179	24,573	436,752
Issue of ordinary shares through placement	400	–	–	–	40,947	–	–	–	41,347	–	41,347
Conversion of convertible notes	567	(33,721)	–	–	93,912	–	–	–	60,758	–	60,758
Exercise of share options	85	–	(3,486)	–	10,046	–	–	–	6,645	–	6,645
Transfer to capital reserve	–	–	–	–	–	28,584	–	(28,584)	–	–	–
Final dividend for 2010 declared and paid	–	–	–	–	–	–	(38,020)	–	(38,020)	–	(38,020)
At 31 December 2011 and 1 January 2012	**19,411**	**–**	**1,580**	**189,518**	**604,589**	**661,514**	**1,746,407**	**352,680**	**3,575,699**	**161,824**	**3,737,523**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**138,478**	**138,478**	**8,930**	**147,408**
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**30,084**	**–**	**–**	**–**	**–**	**30,084**	**2,521**	**32,605**
Total comprehensive income for the year	**–**	**–**	**–**	**30,084**	**–**	**–**	**–**	**138,478**	**168,562**	**11,451**	**180,013**
Issue of ordinary shares through placement	**600**	**–**	**–**	**–**	**22,045**	**–**	**–**	**–**	**22,645**	**–**	**22,645**
Issue of bonus shares	**3,881**	**–**	**–**	**–**	**–**	**–**	**(3,881)**	**–**	**–**	**–**	**–**
Share options lapsed	**–**	**–**	**(46)**	**–**	**–**	**–**	**–**	**46**	**–**	**–**	**–**
Transfer to capital reserve	**–**	**–**	**–**	**–**	**–**	**16,079**	**–**	**(16,079)**	**–**	**–**	**–**
As 31 December 2012	**23,892**	**–**	**1,534**	**219,602**	**626,634**	**677,593**	**1,742,526**	**475,125**	**3,766,906**	**173,275**	**3,940,181**

* These reserve accounts comprise the consolidated reserves of HK$3,523,412,000 (2011: HK$3,366,770,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**193,668**	491,018
Adjustments for:			
Finance costs excluding interest on convertible notes and promissory note	7	**64,288**	71,135
Interest income	5	**(18,830)**	(11,721)
Depreciation	14	**114,206**	102,335
Change in fair value of investment properties	15	**(1,965)**	(1,452)
Amortisation of prepaid land premiums	16	**984**	963
Impairment of prepayment, deposits and other receivables		**14,740**	–
Interest accrued for convertible notes and promissory note	7	**3,448**	4,568
		370,539	656,846
Decrease in inventories		**124,236**	1,024
(Increase)/decrease in trade and bills receivables		**(429,760)**	114,912
(Increase)/decrease in prepayments, deposits and other receivables		**(5,086)**	6,319
Decrease in amounts due from related companies		**242**	111,481
Increase/(decrease) in trade and bills payables		**197,409**	(85,076)
Increase/(decrease) in other payables and accruals		**9,045**	(378,376)
Decrease in amounts due to related companies		**(160,364)**	(165,980)
Cash generated from operations		**106,261**	261,150
Interest received		**4**	1,231
Income tax paid		**(79,065)**	(82,216)
Net cash flows from operating activities		**27,200**	180,165

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**18,826**	10,490
Purchases of items of property, plant and equipment		**(12,447)**	(9,879)
Acquisition of an associate		**–**	(18,109)
Advance to an associate		**(471)**	(172,492)
Advancement for the proposed developments		**(534,856)**	–
Decrease/(increase) in pledged deposits		**102,852**	(78,231)
Purchases of available-for-sale investments		**–**	(4,927)
Purchase of equity investment at fair value through profit or loss		**–**	(617)
Net cash flows used in investing activities		**(426,096)**	(273,765)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**22,645**	47,992
New bank loans		**1,724,084**	1,255,093
Increase/(decrease) in loans from related companies		**86,433**	(75,690)
Repayment of promissory note		**(20,000)**	–
Repayment of loans from banks and non-financial institution		**(1,317,592)**	(1,014,327)
Interest paid		**(82,555)**	(108,779)
Dividend paid		**–**	(38,020)
Net cash flows from financing activities		**413,015**	66,269
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**14,119**	(27,331)
Cash and cash equivalents at beginning of year		**11,786**	34,726
Effect of foreign exchange rate changes, net		**6,490**	4,391
CASH AND CASH EQUIVALENTS AT END OF YEAR		**32,395**	11,786
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	26	**32,395**	12,337
Bank overdrafts	29	**–**	(551)
Cash and cash equivalents as stated in the statement of cash flows		**32,395**	11,786

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**13**	26
Investments in subsidiaries	21	**–**	–
Due from subsidiaries	21	**778,866**	778,866
Total non-current assets		**778,879**	778,892
CURRENT ASSETS			
Prepayments, deposits and other receivables		**348**	348
Due from a related company	38(b)	**29,564**	29,564
Due from subsidiaries	21	**1,279,725**	1,291,877
Cash and cash equivalents	26	**5,485**	164
Total current assets		**1,315,122**	1,321,953
CURRENT LIABILITIES			
Bank overdraft		**–**	332
Other payables and accruals		**2,471**	3,622
Due to related companies	38(b)	**16,347**	14,346
Due to subsidiaries	21	**1,740**	1,740
Total current liabilities		**20,558**	20,040
NET CURRENT ASSETS		**1,294,564**	1,301,913
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,073,443**	2,080,805
NON-CURRENT LIABILITIES			
Promissory note	30	**28,682**	44,445
NET ASSETS		**2,044,761**	2,036,360
EQUITY			
Issued capital	32	**23,892**	19,411
Reserves	34(b)	**2,020,869**	2,016,949
TOTAL EQUITY		**2,044,761**	2,036,360

Cai Sui Xin
Director

Zhao Cheng Shu
Director

1. CORPORATE INFORMATION

Loudong General Nice Resources (China) Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since January 1994.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is situated at Unit B, 12/F., Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. During the year, the principal activity of the Group is coal processing and production of industrial coke and coal-related chemicals and the supply of electricity.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for investment property and equity investments at fair value through profit and loss which have been measured at fair value. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs, which are applicable to the Group, for the first time for the current year's financial statements.

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Among the new and revised HKFRSs, the following are expected to be relevant to the Groups financial statements upon become effective.

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
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 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[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

The Group is in the process of making an assessment of impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on both the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchase of property, plant and equipment.

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

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

Leasehold land	Over the lease term
Buildings	30 years
Plant facilities	30 years
Office equipment	10 years
Machinery	20 years
Motor vehicles	10 years
Plant infrastructure	20 years
Leasehold improvements, furniture and fixtures	5 years

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of the retirement or disposal.

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include cash and bank balances, trade and bill receivables, other receivables, amounts due from associates and related companies, equity investments at fair value through profit or loss and available-for-sale investments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value present as other income and gains and negative net changes in fair value presented as finance costs in the statement of comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other expenses.

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

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Include other criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bill payables, other payables and accruals, amounts due to related companies, interest-bearing bank and other borrowings and promissory note.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. The net fair value gain or loss recognised in the statement of comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs which it is intended to compensate are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(b) rental income, on a time proportion basis over the lease terms; and

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

Share-based payment

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Hull White Trinomial Model, further details of which are given in note 33 to the consolidated financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment (continued)

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

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

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

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

Other employee benefits

For the Company and its subsidiaries located in Hong Kong

Pension scheme

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

For the subsidiaries located in PRC

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

For the subsidiaries located in PRC (continued)

(b) Medical benefit costs

The Group participates in government-organised defined contribution medical benefits plans, under which it pays contributions to the plans at a fixed percentage of wages and salaries of the existing full time employees in the PRC and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to the consolidated statement of comprehensive income as incurred.

(c) Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 7% has been applied to the expenditure on the individual assets.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Impairment of assets

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was approximately HK$330,083,000 (2011: HK$330,083,000). Further details are given in note 19 to the consolidated financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2012 was HK$11,611,000 (2011: HK$11,500,000). Further details are included in note 18 to the consolidated financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was HK$11,092,000 (2011: HK$7,391,000). Further details are contained in note 31 to the consolidated financial statements.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

4 OPERATING SEGMENT INFORMATION

The Group operates only in one business segment, being coal processing and production of industrial coke and coal-related chemicals and supply of electricity in the PRC. Accordingly, no further disclosures by reportable segment are made based on business segment.

The Group operates principally in the PRC. Over 90% of the Group's revenue were derived in the PRC and over 90% of the Group's assets are located in the PRC. Accordingly, no further geographical information was disclosed.

Revenue of approximately HK$734,051,000 (2011: HK$1,118,369,000) was derived from sales to a single customer.

5 REVENUE, OTHER INCOME AND GAINS

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

Revenue, other income and gains recognised during the year are as follows:

	2012	2011
	HK$'000	HK$'000
Revenue		
Sales of goods	**2,233,316**	2,559,575
Other income and gains		
Rental income	**123**	121
Bank interest income	**18,830**	11,721
Government grants*	**9,469**	4,472
Sundry income	**1,297**	229
Fair value gain on an investment property (note 15)	**1,965**	1,452
Exchange gains	**1,472**	–
Others	**–**	274
Total other income and gains	**33,156**	18,269
Total revenue, other income and gains	**2,266,472**	2,577,844

* Various government grants have been received for the Group's supply of electricity and heat in the PRC. There are no unfulfilled conditions or contingencies attached to these grants.

6 PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging:

	2012 HK$'000	2011 HK$'000
Cost of inventories sold *	**1,786,160**	1,776,024
Minimum lease payments under operating leases:		
Land and buildings	**214**	370
Auditors' remuneration	**660**	620
Staff costs (excluding directors' remuneration (note 8))		
Salaries and allowances	**43,818**	37,239
Retirement benefit costs	**3,298**	4,094
Depreciation	**114,206**	102,335
Amortisation of prepaid land premiums	**984**	963
Impairment of prepayments, deposits and other receivables	**14,740**	–

* Cost of inventories sold includes approximately HK$31,765,000 (2011: HK$22,725,000) and HK$100,329,000 (2011: HK$95,597,000) relating to staff costs and depreciation, respectively, which amounts are also included in the respective total amounts disclosed separately above.

7 FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**76,065**	46,973
Finance cost arising from discounted bills receivables	**6,222**	55,618
Loans from non-financial institution	**7**	5,857
Convertible notes	**–**	1,310
Promissory note	**3,448**	3,258
	85,742	113,016
Less: Interest capitalised to construction in progress (note 14)	**(18,267)**	(37,644)
	67,475	75,372
Interest on borrowings not wholly repayable within five years:		
Mortgage loans	**261**	331
	67,736	75,703

8 DIRECTORS' REMUNERATION

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

	2012 **HK$'000**	2011 HK$'000
Fees	**572**	480
Other emoluments:		
Salaries, allowances and benefits in kind	**3,900**	3,900
Pension scheme contributions	**56**	39
	4,528	4,419

a) Independent non-executive directors

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

	2012 **Fees** **HK$'000**	2011 Fees HK$'000
Choy So Yuk	**143**	120
Li Xiao Long	**143**	120
Kwok Man To Paul (resigned on 1 November 2012)	**118**	120
Gao Wen Ping	**143**	120
Leung Yuen Wing (appointed on 1 November 2012)	**25**	–
	572	480

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

8 DIRECTORS' REMUNERATION (continued)

b) Executive directors

2012	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contributions HK$'000**	**Total HK$'000**
Cai Sui Xin	**–**	**–**	**–**
Lau Yu	**650**	**14**	**664**
Li Xiao Juan	**1,040**	**14**	**1,054**
Ng Tze For	**1,560**	**14**	**1,574**
Zhao Cheng Shu	**650**	**14**	**664**
	3,900	**56**	**3,956**

2011	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Cai Sui Xin	–	–	–
Lau Yu	650	12	662
Li Xiao Juan	1,040	12	1,052
Ng Tze For	1,560	12	1,572
Zhao Cheng Shu	650	3	653
	3,900	39	3,939

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

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2011: Nil).

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2011: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: one), highest paid employee who is neither a director nor the chief executive of the Company is as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries, allowances and benefits in kind	**842**	813
Retirement scheme contributions	**14**	12
	856	825

10 INCOME TAX

No Hong Kong profits tax has been provided as the Group had no assessable profits generated in Hong Kong during the year (2011: Nil). Taxes on profits assessable in the PRC have been calculated at the rates of tax applicable to the subsidiaries operating therein, based on existing legislation, interpretations and practices in respect thereof.

The major components of income tax expense for the year are as follows:

	2012 **HK$'000**	2011 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**–**	–
Underprovision in prior years	**–**	58
Current – PRC	**43,347**	171,955
Deferred tax	**2,913**	9,687
Total tax charge for the year	**46,260**	181,700

10 INCOME TAX (continued)

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

Group – 2012

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before tax	(14,174)		207,842		193,668	
Tax at the statutory tax rate	(2,339)	16.5	51,960	25.0	49,621	25.6
Income not subject to tax	(345)	2.4	(915)	(0.4)	(1,260)	(0.7)
Overprovision in prior year	–	–	(31,589)	(15.2)	(31,589)	(16.3)
Expenses not deductible for tax	2,669	(18.8)	26,608	12.8	29,277	15.2
Deferred tax not recognised	211	(1.5)	–	–	211	0.1
Tax charge at effective tax rate	196	(1.4)	46,064	22.2	46,260	23.9

Group – 2011

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before tax	(20,309)		511,327		491,018	
Tax at the statutory tax rate	(3,351)	16.5	127,832	25.0	124,481	25.4
Income not subject to tax	(9)	–	–	–	(9)	–
Expenses not deductible for tax	3,592	(17.7)	57,752	11.3	61,344	12.4
Under provision in prior year	58	(0.3)	–	–	58	–
Others	(103)	0.5	(4,087)	(0.8)	(4,190)	(0.8)
Deferred tax not recognised	16	–	–	–	16	–
Tax charge at effective tax rate	203	(1.0)	181,497	35.5	181,700	37.0

11 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a loss of HK$14,244,000 (2011: HK$16,412,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12 DIVIDENDS

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2012.

13 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 2,354,374,000 (2011 (restated): 2,293,997,000, as adjusted to reflect the bonus issue in 2012 of 388,202,780 shares assumed to have been issued on 1 January 2011) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share for the year is as follows:

	2012 **HK$'000**	2011 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company	**138,478**	291,152

13 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

	Number of shares	
	2012	2011
	’000	’000
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year, as previous reported	**2,354,374**	1,905,794
Restatement for bonus shares issued	**–**	388,203
	2,354,374	2,293,997
Effect of dilution – weighted average number of ordinary shares: Share options	**–**	524
	2,354,374	2,294,521

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2011 and 2012 by the effect of share options as it is reasonably presumed that no option holder will exercise the option when the market price per share is lower than the exercise price per share of the share option. Therefore, no dilution effect occurred for the year.

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Plant facilities HK$'000	Office equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2012									
At 1 January 2012									
Cost	17,429	767,982	28,877	1,080,397	23,283	297,059	1,101	365,534	2,581,662
Accumulated depreciation	(542)	(31,756)	(3,910)	(83,509)	(4,102)	(7,887)	(456)	–	(132,162)
Net carrying amount	16,887	736,226	24,967	996,888	19,181	289,172	645	365,534	2,449,500
At 1 January 2012, net of accumulated depreciation	16,887	736,226	24,967	996,888	19,181	289,172	645	365,534	2,449,500
Additions	–	–	2,966	2,505	599	–	–	6,377	12,447
Capitalised interest (note 7)	–	–	–	–	–	–	–	18,267	18,267
Depreciation provided during the year	(1,302)	(28,078)	(3,867)	(69,701)	(3,355)	(7,866)	(37)	–	(114,206)
Transfer from construction in progress	–	38,420	59	29,455	–	7,418	–	(75,352)	–
Exchange realignment	258	7,258	231	9,261	81	942	–	3,071	21,102
At 31 December 2012, net of accumulated depreciation	15,843	753,826	24,356	968,408	16,506	289,666	608	317,897	2,387,110
At 31 December 2012									
Cost	17,745	815,125	32,316	1,127,084	24,244	306,104	1,101	317,897	2,641,616
Accumulated depreciation	(1,902)	(61,299)	(7,960)	(158,676)	(7,738)	(16,438)	(493)	–	(254,506)
Net carrying amount	15,843	753,826	24,356	968,408	16,506	289,666	608	317,897	2,387,110

14 PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Leasehold land and buildings HK$'000	Plant facilities HK$'000	Office equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011									
At 1 January 2011									
Cost	18,125	544,193	33,754	973,574	27,412	273,963	1,054	677,375	2,549,450
Accumulated depreciation	(2,143)	(8,347)	(7,769)	(100,375)	(6,362)	(21,269)	(424)	–	(146,689)
Net carrying amount	15,982	535,846	25,985	873,199	21,050	252,694	630	677,375	2,402,761
At 1 January 2011, net of accumulated depreciation	15,982	535,846	25,985	873,199	21,050	252,694	630	677,375	2,402,761
Additions	–	1,065	883	3,439	632	–	47	3,813	9,879
Capitalised interest (note 7)	–	–	–	–	–	–	–	37,644	37,644
Depreciation provided during the year	(324)	(27,033)	(3,335)	(63,315)	(3,047)	(5,249)	(32)	–	(102,335)
Transfer from construction in progress	–	201,919	309	144,335	–	38,989	–	(385,552)	–
Exchange realignment	1,229	24,429	1,125	39,230	546	2,738	–	32,254	101,551
At 31 December 2011, net of accumulated depreciation	16,887	736,226	24,967	996,888	19,181	289,172	645	365,534	2,449,500
At 31 December 2011									
Cost	17,429	767,982	28,877	1,080,397	23,283	297,059	1,101	365,534	2,581,662
Accumulated depreciation	(542)	(31,756)	(3,910)	(83,509)	(4,102)	(7,887)	(456)	–	(132,162)
Net carrying amount	16,887	736,226	24,967	996,888	19,181	289,172	645	365,534	2,449,500

14 PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

The Group's land and buildings are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Medium term lease situated in Hong Kong	**14,724**	15,048
Long term lease situated in the People's Republic of China	**1,119**	1,839
	15,843	16,887

The land and building situated in Hong Kong with a net carrying value of approximately HK$14,724,000 (2011: HK$15,048,000) are pledged to secure general banking facilities granted to the Group (note 29).

Certain machinery with a net carrying amount of approximately HK$48,430,000 (2011: HK$67,656,000) are pledged to secure general banking facilities granted to the Group (note 29).

14 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Office equipment	
	2012	2011
	HK$'000	HK$'000
At 1 January		
Cost	**65**	65
Accumulated depreciation	**(39)**	(26)
Net carrying amount	**26**	39
At 1 January, net of accumulated depreciation	**26**	39
Depreciation provided during the year	**(13)**	(13)
At 31 December, net of accumulated depreciation	**13**	26
At 31 December		
Cost	**65**	65
Accumulated depreciation	**(52)**	(39)
Net carrying amount	**13**	26

15 INVESTMENT PROPERTY

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at 1 January	**8,751**	7,299
Net gain from a fair value adjustment (note 5)	**1,965**	1,452
Carrying amount at 31 December	**10,716**	8,751

The Group's investment property is situated in the PRC and is held under a long term lease.

The Group's investment property located in the PRC was revalued on 31 December 2012 by RHL Appraisal Limited, independent professionally qualified valuers, at RMB8,600,000 (equivalent to approximately HK$10,716,000) (2011: RMB7,100,000 (equivalent to approximately HK$8,751,000)) on an open market, existing use basis. The investment property is leased to a third party under an operating lease, details of which are included in note 36 to the consolidated financial statements.

16 PREPAID LAND PREMIUMS

	Group	
	2012	2011
	HK$'000	HK$'000
Cost:		
At 1 January	**41,319**	39,485
Exchange realignment	**400**	1,834
At 31 December	**41,719**	41,319
Accumulated amortisation:		
At 1 January	**3,233**	2,149
Charge for the year	**984**	963
Exchange realignment	**39**	121
At 31 December	**4,256**	3,233
Net carrying amount:		
At 31 December	**37,463**	38,086
Current portion	**(984)**	(963)
Non-current portion	**36,479**	37,123

The leasehold land premium is held under a long term lease and is situated in the PRC.

17 INVESTMENTS IN ASSOCIATES

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets	**19,944**	19,708
Goodwill on acquisition	**4,684**	4,684
	24,628	24,392

17 INVESTMENTS IN ASSOCIATES (continued)

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

Name	Place of establishment/ registration	Paid up capital	Percentage of equity interest attributable to the Group	Principal activities
Nan Tie Lou Jun Coke Transportation Co., Ltd. ("Nan Tie") *^	Shanxi Province, the PRC	RMB10,000,000	19%	Provision of loading storage and transportation service for coke, washed coals and raw coals
Shanxi Guo Xin Loujun New Resources Limited ("Guo Xin Loujun") *^	Shanxi Province, the PRC	RMB30,000,000	49%	Provision of coke oven gas compression, purification, methanation and separation process, and synthesizing coke oven gas into natural gas

On 24 May 2011, Shanxi Loudong-General Nice Coking & Gas Co, Limited ("Shanxi Loudong"), a subsidiary of the Group and 山西省國新能源發展集團有限公司 (Shanxi Guo Xin Resources Development Group Limited^, "Guo Xin Resources", an independent third party) entered into a cooperation agreement (the "Cooperation Agreement"), pursuant to which, Shanxi Loudong and Guo Xin Resources would establish a joint venture namely Guo Xin Loujun, with the registered capital of RMB50 million to engage in the provision of coke oven gas compression, purification, methanation and separation process, and synthesizing coke oven gas into natural gas. Pursuant to the Cooperation Agreement, Guo Xin Loujun is owned as to 51% by Guo Xin Resources and as to 49% by Shanxi Loudong. Up to 31 December 2012, the paid-up capital of Guo Xin Loujun amounted to RMB30 million, of which Shanxi Loudong had contributed RMB14.7 million (equivalent to approximately HK$18 million) in proportion to the equity interest in Guo Xin Loujun.

* Not audited by Ascenda Cachet CPA Limited.

^ The English names of these companies are directly translated from their Chinese names as no English names have been registered.

17 INVESTMENTS IN ASSOCIATES (continued)

A summary of financial information of the associates extracted from their management accounts is set out as follows:

	2012 HK$'000	2011 HK$'000
Assets	**382,628**	385,476
Liabilities	**(321,958)**	(329,333)
Revenues	**18,428**	16,389
Profit	**3,985**	2,732

18 AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012 HK$'000	2011 HK$'000
Unlisted investments, at cost	**11,611**	11,500

The above investment consists of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2012, all the unlisted equity investments with an aggregate carrying amount of HK$11,611,000 (2011: HK$11,500,000) were stated at cost because the range of reasonable fair value estimates cannot be measured reliably. The Group does not intend to dispose of them in the near future.

19 GOODWILL

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at 1 January and 31 December	**330,083**	330,083
As at 31 December		
Cost	**901,222**	901,222
Accumulated impairment	**(571,139)**	(571,139)
	330,083	330,083

Impairment test of goodwill
Goodwill acquired through the business combination has been allocated to the coke cash generating unit. For the purpose of impairment testing, the recoverable amounts of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period with a growth rate beyond the time horizon, which is approved by senior management. At 31 December 2012, the discount rate applied to cash flow projections is 13% (2011: 13%). Key assumptions used in the value in use calculation for 31 December 2012 are as follows:

Revenues
Future revenues are estimated based on annual output taking into account the designed capacity at expected future commodity prices.

Commodity prices
Future commodity prices are estimated by management based on their industry experience, historic price trends and independent expert commentaries.

Discount rates
The discount rates used is based on a weighted average cost of capital, and is real rate, reflecting specific risks relating to the relevant cash generating units.

Growth rates
Cash flows beyond the five year forecast period are assumed to grow at a constant 2% (2011: 2%) per annum, based on expected long term inflation rates in the PRC.

20 OTHER LONG-TERM ASSETS

	Group	
	2012	2011
	HK$'000	HK$'000
Deposit paid for the proposed acquisition of Linxian Taiye #	**467,688**	463,203
Advancement for the proposed Development 1 (note 42(ii))	**472,663**	–
Advancement for the proposed Development 2 (note 42(iii))	**62,193**	–
	1,002,544	463,203
At 1 January	**463,203**	442,641
Advancement for the proposed Development 1 (note 42(ii))	**472,663**	–
Advancement for the proposed Development 2 (note 42(iii))	**62,193**	–
Exchange realignment	**4,485**	20,562
At 31 December	**1,002,544**	463,203

On 16 September 2009, Shanxi Loudong entered into a memorandum of understanding with independent third parties to acquire 49% equity interests in Shanxi Linxian Taiye Coal Mining company Limited now known as Shanxi Loujun Group Taiye Coal Mining Company Limited, ("Linxian Taiye"), a coal mining company. A deposit of RMB176 million was paid upon signing of the memorandum of understanding. On 4 May 2010, Shanxi Loudong entered into an agreement with one of the independent third parties for the acquisition of 30% equity interest in Linxian Taiye at a total consideration of RMB700 million subject to adjustment in respect of profit guarantee. A number of supplemental agreements dated 29 September 2010, 15 October 2010, 30 June 2011 and, 21 October 2011 were entered to, among others, extend the long stop date. During the year ended 31 December 2012, deposits of RMB376 million (equivalent to HK$467,688,000 (2011: HK$463,203,000)) were paid by the Group. As at the date of approval of these consolidated financial statements, the acquisition has not yet completed.

21 INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**–***	–*
Due from subsidiaries:		
Non-current	**1,350,005**	1,350,005
Less: Impairment provision	**(571,139)**	(571,139)
	778,866	778,866
Current	**1,279,725**	1,291,877
	2,058,591	2,070,743
Due to subsidiaries:		
Current	**1,740**	1,740

* The investment at cost has been presented as nil as a result of rounding.

The amounts due from/(to) the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The classification of non-current due from subsidiaries has been determined based on the amount expected to be settled beyond one year from the end of the reporting period.

21 INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation and operation	Issued/paid up capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Kingfund Corporation Limited	Hong Kong	HK$1	–	100%	Property investment
Abterra Coal & Coke Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Shanxi Loudong*#	PRC	RMB446,000,000	–	94.48%	Coke extracting and the manufacture of relevant chemicals
Super Energy Limited	Hong Kong	HK$1	100%	–	Administrative function

* Ascenda Cachet CPA Limited are not the local statutory auditors.

\# The subsidiary is registered as Sino-foreign investment enterprise under the PRC law.

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

22 INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**76,878**	198,285
Work in progress	**25,534**	34,243
Finished goods	**94,042**	88,625
Spare parts and consumables	**5,013**	1,426
	201,467	322,579

23 TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**595,854**	213,838
Bills receivables	**118,868**	68,593
Less: Impairment	**(29,851)**	(29,565)
	684,871	252,866

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's customers are concentrated in the steel making industry. Trade receivables are non-interest bearing.

23 TRADE AND BILLS RECEIVABLES (continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
Current	**191,701**	162,955
31-60 days	**26,064**	17,635
61-90 days	**267,545**	650
91-365 days	**81,928**	27,310
Over 1 year	**28,616**	5,288
	595,854	213,838

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**29,565**	28,252
Exchange realignment	**286**	1,313
At 31 December	**29,851**	29,565

The above provision for impairment of trade receivables as at 31 December 2012 was in relation to individually impaired trade receivables with a carrying amount of HK$29,851,000 (2011: HK$35,271,000).

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

23 TRADE AND BILLS RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**300,988**	162,955
Less than 1 month past due	**5,953**	296
1 to 3 months past due	**197,790**	–
3 to 12 months past due	**58,276**	21,022
1 year past due	**2,996**	–
	566,003	184,273

Receivables that were neither overdue nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

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

24 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2012	2011
	HK$'000	HK$'000
Advances to suppliers	**445,104**	612,800
Deposit paid for construction of plant and machinery	**131,848**	–
Other receivables and deposits	**92,145**	59,479
	669,097	672,279

24 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The aged analysis of the other receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**92,087**	59,454

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

25 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments, at market value:		
PRC	**1,244**	1,232

The above equity investments at 31 December 2011 and 2012 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,015,544**	1,087,923	**5,485**	164
Less: Pledged bank deposits with maturity period over three months	**(983,149)**	(1,075,586)	**–**	–
Cash and cash equivalents	**32,395**	12,337	**5,485**	164

At the end of the report period, the cash and bank balance of Group denominated in Renminbi ("RMB") amounted to HK$1,005,484,000 (2011: HK$1,086,902,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group was permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26 CASH AND CASH EQUIVALENTS (continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27 TRADE AND BILLS PAYABLE

	Group	
	2012	2011
	HK$'000	HK$'000
Trade payables	**119,173**	147,936
Bills payable	**746,310**	513,711
	865,483	661,647

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

	Group	
	2012	2011
	HK$'000	HK$'000
Current	**29,568**	75,508
31-60 days	**15,684**	10,554
61-90 days	**12,686**	8,072
91-365 days	**37,895**	9,673
Over 1 year	**23,340**	44,129
	119,173	147,936

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

28 OTHER PAYABLES AND ACCURALS

	Group	
	2012	2011
	HK$'000	HK$'000
Customer advances	**75,647**	67,172
Value-added tax payable	**17,139**	45,808
Other payables	**72,520**	53,671
Accruals	**39,093**	25,283
	204,399	191,934

Other payables are non-interest bearing and have an average term of three months.

29 INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2012 Effective interest rate (%)	2012 Maturity	2012 HK$'000	2011 Effective interest rate (%)	2011 Maturity	2011 HK$'000
Current:						
Bank overdrafts – secured			–		On demand	551
Bank loans – secured	**3.5%**	**On demand**	**7,841**	3.5%	2012	8,200
Bank loans – secured	**4.4% – 9.184%**	**2013**	**1,059,852**	5.576% – 6.903%	2012	609,296
Current portion of loan from local credit corporation – secured	**5.410%**	**2013**	**26,122**	5.410%	2012	22,829
			1,093,815			640,876
Non-current:						
Loan from local credit corporation – secured			–	5.410%	2013	26,448
Other borrowing:						
Loan from non-financial institution – unsecured	**28%**	**No fixed terms**	**2,463**	28%	No fixed terms	12,295
			2,463			38,743
			1,096,278			679,619

29 INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group	
	2012	2011
	HK$'000	HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**1,067,693**	618,047
Other borrowings repayable:		
Within one year or on demand	**26,122**	22,829
In the second year	**2,463**	38,743
	28,585	61,572
Total borrowings	**1,096,278**	679,619
Less: Classified as non-current portion	**(2,463)**	(38,743)
Current portion	**1,093,815**	640,876

Certain of the Group's bank loans and loan from a local credit corporation are secured by:

(a) mortgage over the Group's land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately HK$14,724,000 (note 14) (2011: HK$15,048,000);

(b) mortgage over the Group's machinery, which had an aggregate carrying value at the end of the reporting period of approximately HK$48,430,000 (note 14) (2011: HK$67,656,000);

(c) pledge of certain of the Group's bank deposits amounting to approximately HK$983,149,000 (note 26) (2011: HK$1,075,586,000);

(d) personal guarantees from the directors of the Company and the directors of the subsidiary; and

(e) corporate guarantees from the related companies and independent third parties.

30 PROMISSORY NOTE

	Group and Company	
	2012	2011
	HK$'000	HK$'000
At 1 January	**44,445**	49,586
Interest expenses charged (note 7)	**3,448**	3,258
Early redemption during the year	**(19,211)**	(8,399)
At 31 December	**28,682**	44,445

On 27 July 2010, the Company issued an unsecured promissory note with principal value of HK$60,000,000 as a partial consideration for the acquisition of a further 39.9% equity interest in Shanxi Loudong. During the years ended 31 December 2011 and 2012, the Company had negotiated and agreed with the noteholder to redeem part of the promissory note with a principal value of HK$10,000,000 and HK$20,000,000, respectively.

The promissory note bears no interest and is repayable in one lump sum on the date falling three years from the issue date of this note.

The promissory note is subsequently measured at amortised cost, using an effective rate of 7.735%.

31 DEFERRED TAX

Group

Deferred tax assets

31 December 2012

	Impairment of trade receivables HK$'000	Impairment of other receivables HK$'000	Total HK$'000
At 1 January 2012	7,391	–	7,391
Deferred tax credited to the statement of comprehensive income	–	3,647	3,647
Exchange realignment	16	38	54
At 31 December 2012	7,407	3,685	11,092

Deferred tax liabilities

	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land premiums HK$'000	Others HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Total HK$'000
At 1 January 2012	33,110	2,963	357	16,914	53,344
Deferred tax charged to the statement of comprehensive income	4,614	269	196	1,481	6,560
Exchange realignment	321	29	–	(85)	265
At 31 December 2012	38,045	3,261	553	18,310	60,169

31 DEFERRED TAX (continued)

Group (continued)

Deferred tax assets

31 December 2011

	Impairment of trade receivables HK$'000	Total HK$'000
At 1 January 2011	7,063	7,063
Exchange realignment	328	328
At 31 December 2011	7,391	7,391

Deferred tax liabilities

	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land premiums HK$'000	Others HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Total HK$'000
At 1 January 2011	22,459	2,617	502	17,971	43,549
Deferred tax charged/(credited) to the statement of comprehensive income	9,608	224	(145)	–	9,687
Exchange realignment	1,043	122	–	(1,057)	108
At 31 December 2011	33,110	2,963	357	16,914	53,344

The Group has accumulative tax losses arising in Hong Kong of HK$76,194,000 (2011: HK$76,028,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

31 DEFERRED TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2011: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of withholding taxes associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$49,398,000 (2011: HK$41,756,000).

There were no significant deferred tax assets or liabilities of the Company at 31 December 2012 (2011: Nil).

32 SHARE CAPITAL

	2012 HK$'000	2011 HK$'000
Authorised:		
200,000,000,000 ordinary shares of HK$0.01 each	**2,000,000**	2,000,000
Issued and fully paid:		
2,389,222,370 (2011: 1,941,019,590) ordinary shares of HK$0.01 each	**23,892**	19,411

32 SHARE CAPITAL (continued)

	Number of shares '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2011	1,835,854	18,359	459,684	478,043
Issue of new shares:				
Share issue expenses	–	–	(255)	(255)
Conversion of convertible notes (note a)	56,667	567	93,912	94,479
Share options exercised (note b)	8,497	85	6,560	6,645
Transfer from share option reserve upon exercise of share options	–	–	3,486	3,486
Issue of shares by placement (note c)	40,002	400	41,202	41,602
At 31 December 2011 and at 1 January 2012	**1,941,020**	**19,411**	**604,589**	**624,000**
Issue of new shares:				
Bonus issue (note d)	**388,203**	**3,881**	**–**	**3,881**
Issue of shares by placement (note e)	**60,000**	**600**	**22,045**	**22,645**
At 31 December 2012	**2,389,223**	**23,892**	**626,634**	**650,526**

The movements in the issued share capital of the Company were as follows:

(a) Conversion of convertible notes

During the year ended 31 December 2011, the convertible notes in an aggregate principal amount of HK$85,000,000 were converted into 56,666,666 shares of the Company at a conversion price of HK$1.50 per share.

(b) Exercise of share options

During the year ended 31 December 2011, share options to subscribe for 8,497,110 shares were exercised at an adjusted subscription price of HK$0.782 per share. Details of the share options were set out in note 33.

(c) Placing of new shares

On 15 June 2011, the Company entered into a share placing agreement with a placing agent, which is an independent third party, pursuant to which, the placing agent agreed to place, on a best effort basis, up to 40,002,000 new shares at a placing price of HK$1.04 per placing share to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons (as defined in the Listing Rules). Upon completion of the placing on 27 June 2011, a total of 40,002,000 new shares of the Company were issued. The net proceeds of HK$41 million were used for general working capital purpose. For further details, please refer to the Company's announcements dated 15 June 2011 and 27 June 2011.

32 SHARE CAPITAL (continued)

(d) Bonus issue

On 28 March 2012, the Board proposed a bonus issue (the "Bonus Issue") on the basis of 2 bonus shares for every 10 existing shares to shareholders whose names appeared on the register of members of the Company on 8 June 2012. The shareholders approved the Bonus Issue at the annual general meeting held on 30 May 2012, and a total of 388,202,780 bonus shares were issued on 29 June 2012 and accordingly, the Group recognised issued share capital of HK$3,881,000 from the contributed surplus account.

(e) Placing of new shares

On 11 July 2012, the Company entered into a placing agreement with a placing agent, which is an independent third party, pursuant to which, the placing agent agreed to place, on a best effort basis, up to 60,000,000 new shares at a placing price of HK$0.38 per placing share to not less than six placees who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons (as defined in the Listing Rules). Upon completion of the placing on 1 August 2012, a total of 60,000,000 new shares were issued. The net proceeds for the placement of approximately HK$22.54 million would be used for general working capital of the Group. Details of the placing had been disclosed in the Company's announcements dated 11 July 2012 and 1 August 2012.

33 SHARE OPTION SCHEME

On 25 June 2007 (the "Adoption Date"), the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole. Participants include the directors and any employees of the Group, supplier of goods or services of the Group, any person provides professional advice, consultancy services or technical support to the Group and any shareholder of any member of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from the Adoption Date. The principal terms of the Scheme are summarised as follows:

(a) The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the number of shares of the Company in issue as at the Adoption Date. Subject to prior shareholders' approval, the Company may, at any time thereafter, refresh the scheme mandate limit to the extent not exceeding 10% of the shares in issue as at the date of the shareholders' approval. The shareholders approved the refreshment of the scheme limit at a special general meeting held on 15 October 2010. Following the refreshment, the maximum number of shares in respect of which options may be granted under the Scheme is 182,509,081 shares, representing 10% of the total number of shares in issue as at the date of refreshment of the scheme limit on 15 October 2010 and representing approximately 7.6% of the issued share capital of the Company as at 31 December 2012 and the date of this annual report. The maximum number of shares to be issued under the share options granted to each Participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

33 SHARE OPTION SCHEME (continued)

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

(c) The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of a consideration of HK$10.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on the expiry of six months after the date of grant and ends on a date which is not later than the expiry date of the Scheme.

(d) The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares stated in the Stock Exchange's daily quotation sheets on the date of grant; and (ii) the average closing price of the Company's shares stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

33 SHARE OPTION SCHEME (continued)

The movements in the share options of the Company during the year were set out as follows:

Name or category of participants	At 1 January 2012 (Note 1)	Adjusted upon the Bonus Issue as at 29 June 2012 (Note 2)	Lapsed during the year (Note 3)	At 31 December 2012	Exercise period of the outstanding share options	Exercise price per share HK$ (Note 2)
Directors						
Ng Tze For	3,285,549	656,908	–	3,942,457	From 9 January 2010 to 24 June 2017	0.6517
Li Xiao Long	226,590	45,304	–	271,894	From 9 July 2010 to 24 June 2017	0.6517
Sub-total	3,512,139	702,212	–	4,214,351		
Other employees (in aggregate)	339,885	67,956	(135,947)	271,894	From 9 January 2010 to 24 June 2017	0.6517
Total	3,852,024	770,168	(135,947)	4,486,245		

Notes:

1. These share options were granted on 9 July 2009 at an exercise price of HK$0.886 per share. As a result of completion of the open offer by the Company in July 2009, the exercise price of the share options was adjusted from HK$0.886 to HK$0.782 per share and the number of share options was adjusted accordingly.

2. Upon the completion of the Bonus Issue on 29 June 2012, the exercise price of the share options was further adjusted from HK$0.782 per share to HK$0.6517 per share and the number of outstanding share options was further adjusted.

3. During the year, 135,947 share options were lapsed and the Group de-recognised an amount of HK$46,000 from the share option reserves to retained earnings.

4. During the year, no option was exercised, granted or cancelled.

33 SHARE OPTION SCHEME (continued)

At the end of the reporting year and at the date of approval of these consolidated financial statements, the Company had 4,486,245 share options outstanding under the Scheme, exercisable at a price of HK$0.6517 per share, which represented approximately 0.19% of the Company's shares in issue as at the end of the reporting year. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,486,245 additional ordinary shares of the Company and additional share capital of approximately HK$45,000 and share premium of approximately HK$2,879,000 (before issue expenses).

34 RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

(i) Capital reserve

Capital reserve comprised of the followings:

Statutory surplus reserve ("SSR")

Pursuant to the relevant PRC laws and regulations for Sino-foreign joint venture enterprises, the profits of the Group's PRC subsidiary are available for distribution, in the form of cash dividends to each of the joint venture partners: (1) satisfies all tax liabilities; (2) provides for losses in previous years; and (3) makes appropriate to the three statutory reserves. These appropriations include the individual entity's reserve fund, expansion fund and funds for staff bonuses and welfare benefits.

All Sino-foreign enterprises are generally required to appropriate not less than 10% of their net profit after tax to the SSR as determined in the PRC subsidiary's statutory audited accounts prepared in accordance with Chinese Accounting Standards, until the balance of the fund reaches 50% of the registered capital. Appropriations of the expansion fund and funds for staff bonuses and welfare benefits are determined at the sole discretion of the board of directors.

Subject to certain restrictions set out in the Company law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

34 RESERVES (continued)

(a) Group (continued)

(i) Capital reserve (continued)

Waiver of the increased consideration for the acquisition of 50.1% equity interest in Shanxi Loudong

Pursuant to the sale and purchase agreement dated 8 December 2007, as supplemented by supplemental agreements, entered between GNR and Buddies Power Enterprises Limited, a subsidiary of the Company, the consideration for the acquisition of 50.1% equity interest in Shanxi Loudong shall be increased by HK$280 million in the event that the aggregate audited attributable net profits of 50.1% equity interest in Shanxi Loudong for the financial years ended 31 December 2008 and 2009 exceeds HK$230 million, such increased amount is to be satisfied by way of Buddies Power Enterprises Limited procuring the Company to issue a promissory note in the principal amount of the increased consideration of HK$280 million to GNR. The targeted profits for the above-mentioned financial years were made. The increased consideration was included in the consolidated financial statements for the year ended 31 December 2009 as goodwill and amount due to GNR of HK$280 million.

On 26 August 2010, GNR, Buddies Power Enterprises Limited and the Company entered into a deed of waiver pursuant to which GNR agreed to waive the obligations of the Group under the agreements to waive the liability due from the Group. Accordingly, the Group had classified the amount due to GNR as capital reserve with no adjustment to the goodwill previously recorded.

Capital reserve in respect of acquisition of the equity interest of the PRC subsidiary

During the year ended 31 December 2010, the Group had acquired further 39.9% equity interest in Shanxi Loudong from Hing Lou Resources Limited, a non-controlling equity holder of Shanxi Loudong and a shareholder of the Company. Pursuant to the acquisition of the 39.9% equity interest in Shanxi Loudong, an excess of the net assets acquired over the consideration amounting to approximately HK$224,238,000 was recorded. In accordance with HKFRS 3 Business Combination, the excess should be accounted for as equity movement as being acquisition of the non-controlling interests and included in the capital reserve of the Group.

During the year ended 31 December 2010, apart from the acquisition of the 39.9% equity interest in Shanxi Loudong, only the Group had further contributed to Shanxi Loudong. Accordingly, there was a deemed acquisition of the equity interest in Shanxi Loudong. In accordance with HKFRS 3, such deemed acquisition should be accounted for as equity movement and included in the capital reserve of the Group.

(ii) Contributed surplus

Pursuant to a special resolution passed at the special general meeting on 15 October 2010, the share premium of the Company of HK$2,269,538,000 as at 30 June 2010 had been cancelled and eliminated against the accumulated losses of the Company of HK$475,986,000 as at 30 June 2010 and the then remaining balance of HK$1,793,552,000 was transferred to the contributed surplus account of the Company.

34 RESERVES (continued)

(b) Company

	Share premium account HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000 (Note (i))	Share option reserve HK$'000 (Note 33)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	459,684	160,670	1,784,427	5,066	(479,885)	1,929,962
Profit for the year and total comprehensive income	–	–	–	–	(16,412)	(16,412)
Issue of ordinary shares through placements	40,947	–	–	–	–	40,947
Conversion of convertible notes	93,912	–	–	–	–	93,912
Exercise of share options	10,046	–	–	(3,486)	–	6,560
Final dividend for 2010 declared and paid	–	–	(38,020)	–	–	(38,020)
At 31 December 2011 and at 1 January 2012	**604,589**	**160,670**	**1,746,407**	**1,580**	**(496,297)**	**2,016,949**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**(14,244)**	**(14,244)**
Share options lapsed	**–**	**–**	**–**	**(46)**	**46**	**–**
Bonus issue	**–**	**–**	**(3,881)**	**–**	**–**	**(3,881)**
Issue of ordinary shares through placements	**22,045**	**–**	**–**	**–**	**–**	**22,045**
At 31 December 2012	**626,634**	**160,670**	**1,742,526**	**1,534**	**(510,495)**	**2,020,869**

(i) Contributed surplus

Pursuant to a special resolution passed at the special general meeting on 15 October 2010, the share premium of the Company of HK$2,269,538,000 as at 30 June 2010 had been cancelled and eliminated against the accumulated losses of the Company of HK$475,986,000 as at 30 June 2010 and the remaining balance of HK$1,793,552,000 was transferred to the contributed surplus account of the Company.

35 CONTINGENT LIABILITIES

There were no contingent liabilities of the Group and of the Company as at 31 December 2011 and 2012.

36 OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment property (note 15) under operating lease arrangements, with the lease negotiated for terms for 10 years.

At 31 December 2012, the Group had total future minimum lease receivables under a non-cancellable operating lease within its tenant falling due as follows:

	2012	2011
	HK$'000	HK$'000
Within the first year	**124**	121
In the second to fifth years, inclusive	**498**	485
After the fifth year	**218**	333
	840	939

As lessee

The Group leases certain of its staff quarters under operating lease arrangement. Leases for residential property is negotiated for terms ranging from one to two years.

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

	2012	2011
	HK$'000	HK$'000
Within the first year	**214**	–

37 CAPITAL COMMITMENTS

	2012 HK$'000	2011 HK$'000
Contracted, but not provided for, in respect of:		
Acquisition of 30% equity interest in Linxian Taiye (Note (i))	**403,008**	399,143
Capital contribution for interest in Guo Xin Loujun (Note (ii))	**12,190**	12,073
Contribution for capital expenditure of Guo Xin Loujun relating to construction of production facilities (Note (ii))	**8,707**	8,624
Capital expenditure in respect to the construction in progress	**56,246**	55,709
	480,151	475,549

Notes:

(i) On 16 September 2009, Shanxi Loudong entered into a memorandum of understanding with independent third parties to acquire 49% equity interests in Linxian Taiye. A deposit of RMB176 million was paid upon signing of the memorandum of understanding. On 4 May 2010, Shanxi Loudong entered into an agreement with the independent third party to revise the acquisition to 30% equity interest in Linxian Taiye at a total consideration of RMB700 million (equivalent to HK$824,066,000). During the year ended 31 December 2010, an additional amount of RMB200 million was paid by the Group. As at 31 December 2012, the aggregate amount paid by the Group reached RMB376 million. Accordingly, Shanxi Loudong had capital commitment of RMB324 million (equivalent to approximately HK$403,008,000). As additional time is required for the finalisation and negotiation of the terms of the relevant supplemental agreement; and the arranging to prepare and update the valuation report and the competent person's report of the coal mine and the financial statements of the Linxian Taiye, the acquisition has not been completed at the date of approval of these consolidated financial statements.

(ii) On 24 May 2011, Shanxi Loudong and Guo Xin Resources, an independent third party, entered into a cooperation agreement (the "Cooperation Agreement"), pursuant to which, Shanxi Loudong and Guo Xin Resources would establish a joint venture namely Guo Xin Loujun with registered capital of RMB50 million to engage in the provision of coke oven gas compression, purification, methenation and separation process, and synthesizing coke oven gas into natural gas. Pursuant to the Cooperation Agreement, Guo Xin Loujun is owned as to 51% by Guo Xin Resources and as to 49% by Shanxi Loudong. Accordingly, Shanxi Loudong should contribute RMB24.5 million to Guo Xin Loujun as equity capital. Up to 31 December 2012, Shanxi Loudong had contributed RMB14.7 million. Accordingly, Shanxi Loudong had capital commitment of RMB9.8 million (equivalent to HK$12,190,000).

Apart from the equity capital contribution, pursuant to the Cooperation Agreement, Shanxi Loudong should contribute of RMB147 million to Guo Xin Loujun for the construction of production facilities. Up to 31 December 2012, Shanxi Loudong had made shareholders' loan of RMB140 million (equivalent to approximately HK$174,633,000 (2011: equivalent to approximately HK$172,492,000)) and accordingly, had capital commitment of RMB7 million (equivalent to HK$8,707,000 (2011: equivalent to approximately HK$8,624,000)).

38 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Notes	**2012 HK$'000**	2011 HK$'000
Director:			
Rental expense	(i)	**214**	336

Notes:

(i) The rental expenses paid to the close family member of the director were determined with reference to the normal commercial terms of similar transactions.

(b) Outstanding balances with related parties

The balances with related parties are unsecured, interest-free and have no fixed terms of repayment. These balances represented cash advances to or from those related parties and shareholders, and were non-trade in nature.

The detailed breakdown of amounts with related parties and shareholders is as follows:

38 RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties (continued)

Outstanding balances with related parties:

(i) Current portion

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from related companies:				
GNR *	**387**	263	**–**	–
GNT	**29,564**	29,564	**29,564**	29,564
General Nice (Shanxi) Economic & Trade Co., Ltd	**1,428**	1,408	**–**	–
Nan Tie	**–**	368	**–**	–
Xiaoyi Loudong Industry & Trading Group Company	**9,951**	9,856	**–**	–
	41,330	41,459	**29,564**	29,564
Due to related companies:				
GNR *	**16,656**	13,656	**13,656**	13,656
GND ^	**584**	584	**584**	584
Hing Lou Resources Limited#	**2,125**	124	**2,107**	106
Tianjin General Nice Coke & Chemicals Co. Limited	**997**	997	**–**	–
Xiaoyi Loudong Industry & Trading Group Company	**248**	165,613	**–**	–
	20,610	180,974	**16,347**	14,346

38 RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties (continued)

(ii) Non-current portion

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due from an associate:				
Shanxi Guo Xin Loujun	**174,633**	172,492	**–**	–
Loan from related companies:				
GND ^	**138,189**	136,863	**–**	–
GNT	**86,433**	–	**–**	–
GNR *	**911**	902	**–**	–
	225,533	137,765	**–**	–

* GNR directly held the Company's shareholding of 13.98% as at 31 December 2012.

^ GND indirectly held the Company's shareholding of 13.98% as at 31 December 2012.

Hing Lou Resources Limited directly held the Company's shareholding of 13.47% as at 31 December 2012.

(c) Compensation of key management personnel of the Group

	2012	2011
	HK$'000	HK$'000
Short term employee benefits	**3,900**	3,900
Post-employment benefits	**56**	39
Total compensation paid to key management personnel	**3,956**	3,939

39 FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

31 December 2012

Financial assets

	Financial assets at fair value through profit or loss held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	11,611	11,611
Due from an associate	–	174,633	–	174,633
Trade and bills receivables	–	684,871	–	684,871
Financial assets included in prepayments, deposits and other receivables	–	92,145	–	92,145
Due from related companies	–	41,330	–	41,330
Equity investments at fair value through profit or loss	1,244	–	–	1,244
Pledged deposits	–	983,149	–	983,149
Cash and cash equivalents	–	32,395	–	32,395
	1,244	2,008,523	11,611	2,021,378

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	128,752
Interest-bearing bank and other borrowings	1,096,278
Due to related companies	20,610
Loans from related companies	225,533
Trade and bills payables	865,483
Promissory note	28,682
	2,365,338

39 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

31 December 2011

Financial assets

	Financial assets at fair value through profit or loss held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	11,500	11,500
Due from an associate	–	172,492	–	172,492
Trade and bills receivables	–	252,866	–	252,866
Financial assets included in prepayments, deposits and other receivables	–	59,479	–	59,479
Due from related companies	–	41,459	–	41,459
Equity investments at fair value through profit or loss	1,232	–	–	1,232
Pledged deposits	–	1,075,586	–	1,075,586
Cash and cash equivalents	–	12,337	–	12,337
	1,232	1,614,219	11,500	1,626,951

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interest-bearing bank and other borrowings	679,619
Due to related companies	180,974
Loans from related companies	137,765
Trade and bills payables	661,647
Financial liabilities included in other payables and accruals	124,762
Promissory note	44,445
	1,829,212

39 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	Loans and receivables	
	2012	2011
	HK$'000	HK$'000
Due from subsidiaries	**2,058,591**	2,070,743
Due from a related company	**29,564**	29,564
Financial assets included in prepayments, deposits and other receivable	**36**	36
Cash and cash equivalents	**5,485**	164
	2,093,676	2,100,507

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	HK$'000	HK$'000
Bank overdrafts	**–**	332
Other payables and accruals	**2,471**	3,622
Due from related companies	**16,347**	14,346
Due to subsidiaries	**1,740**	1,740
Promissory note	**28,682**	44,445
	49,240	64,485

40 FAIR VALUE HIERARCHY

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

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

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

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

Assets measured at fair value

Group

31 December 2012

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Equity investments at fair value through profit or loss	**1,244**	**–**	**–**	**1,244**

31 December 2011

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity investments at fair value through profit or loss	1,232	–	–	1,232

Company

As at 31 December 2011 and 2012, the Company did not have any financial assets measured at fair value.

Liabilities measured at fair value

As at 31 December 2011 and 2012, the Group and the Company did not have any financial liabilities measured at fair value.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise promissory note, interest-bearing bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures as almost 100% of the sales and purchases of the Group were transacted in Renminbi ("RMB"). The Group manages its transactional currency exposures by matching as far as possible, its receipts and payments in each individual currency. The Group monitors the foreign currency exchange rates closely so as to minimise any potential material adverse effects from these exposure in a timely manner.

The following table demonstrates the sensitivity at the respective reporting dates to a reasonable possible change in the exchange rate of RMB with all other variables held constant, of Group's profit before tax.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	HK$'000	HK$'000
31 December 2012			
If HKD weakens against RMB	**5%**	**173,490**	**–**
If HKD strengthens against RMB	**(5%)**	**(173,490)**	**–**
31 December 2011			
If HKD weakens against RMB	5%	170,616	–
If HKD strengthens against RMB	(5%)	(170,616)	–

* Excluding retained earnings/accumulated losses

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, prepayments, deposits and other receivables, amounts due from a shareholder and related companies, equity investments at fair value through profit or loss, pledged deposits and trade and bills receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The credit risk on liquid funds is limited because majority of the counterparties are banks of high credit quality in Hong Kong and banks with good reputation in the PRC.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Group

31 December 2012

	Within 1 year, on demand or no fixed repayment terms HK$'000	1 to 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	**1,093,815**	**2,463**	**1,096,278**
Due to related companies	**20,610**	**–**	**20,610**
Trade and bills payables	**865,483**	**–**	**865,483**
Loans from related companies	**–**	**225,533**	**225,533**
Financial liabilities included in other payables and accruals	**204,399**	**–**	**204,399**
Promissory note	**–**	**28,682**	**28,682**
	2,184,307	**256,678**	**2,440,985**

31 December 2011

	Within 1 year, on demand or no fixed repayment terms HK$'000	1 to 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	640,876	38,743	679,619
Due to related companies	180,974	–	180,974
Trade and bills payables	661,647	–	661,647
Loans from related companies	–	137,765	137,765
Financial liabilities included in other payables and accruals	191,934	–	191,934
Promissory note	–	44,445	44,445
	1,675,431	220,953	1,896,384

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, the non-current portion of the amounts due to related companies and promissory note, less cash and cash equivalents. Total capital represents total equity attributable to owners of the Company. The gearing ratios as at the ends of reporting periods were as follows:

	2012 **HK$'000**	2011 HK$'000
Interest-bearing bank and other borrowings	**1,096,278**	679,619
Loan from related companies	**225,533**	137,765
Promissory note	**28,682**	44,445
Less: Cash and bank balances	**(32,395)**	(12,337)
Net debt	**1,318,098**	849,492
Equity	**3,940,181**	3,737,523
Total capital and net debt	**5,258,279**	4,587,015
Gearing ratio	**25%**	19%

42 EVENTS AFTER THE REPORTING PERIOD

Significant events occurred after the reporting period are as follows:

(i) On 19 March 2013, Shanxi Loudong and 山西紅溝煤化工有限公司 (literally translated as Shanxi Honggou Coal and Chemical Industry Limited, "Shanxi Honggou", an independent third party) entered into a memorandum of understanding ('MOU'), pursuant to which it was proposed for the two parties to form a joint venture entity in which Shanxi Loudong will invest RMB12 million (equivalent to approximately HK$15 million) in the joint venture entity, holding 60% equity interests in the joint venture entity. Shanxi Honggou will invest RMB8 million (equivalent to approximately HK$10 million) in the joint venture entity, holding 40% equity interests in the joint venture entity. The entering into of the MOU does not constitute legally binding obligation on the parties thereto. The formation of the joint venture entity is subject to the entering into of a formal joint venture agreement between Shanxi Loudong and Shanxi Honggou on or before 18 April 2013.

(ii) On 19 March 2013, Shanxi Loudong entered into a lease agreement (the "Lease Agreement 1") with the Villagers Committee of Tianjia Gou Village for the leasing of a land located in the PRC for a term commencing from 1 April 2013 to 31 March 2043 at a rent of approximately RMB2 million (equivalent to approximately HK$2.5 million) per year (the "Proposed Development 1"). The rent is payable annually in advance. Pursuant to the terms of the Lease Agreement 1, Shanxi Loudong is required to pay a total sum of RMB380 million (equivalent to approximately HK$473 million) as a deposit for compensation to the residents for relocation. The compensation and costs on relocation of the residents of Tianjia Gou Village will be deducted from the deposit. The balance shall be returned to Shanxi Loudong. Should the parties agreed to terminate the aforesaid lease agreement within the first year of the term of the lease agreement, the deposit shall be refunded to Shanxi Loudong without any deductions.

(iii) On 19 March 2013, Shanxi Loudong entered into a lease agreement (the "Lease Agreement 2") with the Villagers Committee of Daxiaobao Village for the leasing of a land located in the PRC for a term commencing from 1 April 2013 to 31 March 2043 at a rent of approximately RMB225,000 (equivalent to approximately HK$281,250) per year (the "Proposed Development 2"). The aggregate rent for the term of the Lease Agreement 2 is approximately RMB6.75 million (equivalent to approximately HK$8.44 million) payable in one lump sum in advance. Pursuant to the terms of the Lease Agreement 2, Shanxi Loudong is required to pay a total sum of RMB50 million (equivalent to approximately HK$62 million) as a deposit for compensation to the residents for relocation. The compensation and costs on relocation of the residents of Daxiaobao Village will be deducted from the deposit. The balance shall be returned to Shanxi Loudong. Should the parties agreed to terminate the aforesaid lease agreement within the first year of the term of the lease agreement, the deposit shall be refunded to Shanxi Loudong without any deductions.

Further details of the above were disclosed in the Company's announcement dated 19 March 2013.

43 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation. In addition, as explained in note 13 to the consolidated financial statements, the earnings per share for the year ended 31 December 2011 has been adjusted to reflect the bonus issue during the year ended 31 December 2012.

44 APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue by the Company's board of directors on 26 March 2013.

Particulars of Properties

31 December 2012

INVESTMENT PROPERTY

Location	Intend use	Site area (sq m)	Lease term
Unit 601 together with its roof, Phase 1, Levels 6 and 7, Block 2, Court No. 4, Greenwich Garden, Yaojiayuan East Lane, Chaoyang District, Beijing City, the PRC	Lease	254.14	Long lease

Five Year Financial Summary

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

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
Revenue	**2,233,316**	2,559,575	2,358,250	1,224,798	506,833
Cost of sales	**(1,786,160)**	(1,776,024)	(1,639,963)	(778,276)	(293,111)
Gross profit	**447,156**	783,551	718,287	446,522	213,722
Other income	**33,156**	18,269	65,643	118,789	15,421
Selling and distribution costs	**(69,279)**	(131,566)	(148,985)	(53,494)	(48,003)
Administration expenses	**(129,108)**	(87,113)	(88,379)	(67,148)	(69,153)
Other operating expenses	**(20,521)**	(16,420)	(31,047)	(27,309)	(11,415)
Fair value changes on derivative component of convertible notes	**–**	–	(16,949)	–	–
Goodwill impairment loss	**–**	–	–	–	(571,139)
Finance costs	**(67,736)**	(75,703)	(51,736)	(80,733)	(31,652)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**193,668**	491,018	446,834	336,627	(502,219)
Income tax expense	**(46,260)**	(181,700)	(160,248)	(141,927)	(15,423)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**147,408**	309,318	286,586	194,700	(517,642)
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	**–**	–	–	4,796	3,043

Five Year Financial Summary

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE YEAR	**147,408**	309,318	286,586	199,496	(514,599)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	**32,605**	127,434	83,973	2,900	(10,184)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX					
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**180,013**	436,752	370,559	202,396	(524,783)
Profit attributable to:					
Owners of the parent	**138,478**	291,152	187,236	50,414	(563,433)
Non-controlling interests	**8,930**	18,166	99,350	149,082	48,834
	147,408	309,318	286,586	199,496	(514,599)
Total comprehensive profit attributable to:					
Owners of the parent	**168,562**	412,179	259,376	51,867	(568,535)
Non-controlling interests	**11,451**	24,573	111,183	150,529	43,752
	180,013	436,752	370,559	202,396	(524,783)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**6,603,433**	5,883,736	5,795,750	4,359,869	4,058,456
TOTAL LIABILITIES	**(2,663,252)**	(2,146,213)	(2,565,709)	(2,574,622)	(3,025,337)
NON-CONTROLLING INTERESTS	**(173,275)**	(161,824)	(137,251)	(920,151)	(769,622)
	3,766,906	3,575,699	3,092,790	865,096	263,497