



HUSCOKE RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(stock code: 704)



Annual Report **2012**

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Gao Jianguo (*Chairman*)
Mr. Li Baoqi (*Chief Executive Officer*)
Mr. Cheung Ka Fai (*Chief Financial Officer*)
(resigned on 31 July 2012)

Non-executive Director

Mr. Wu Jixian

Independent Non-executive Directors

Mr. Lam Hoy Lee, Laurie
Mr. Lau Ka Ho
Mr. To Wing Tim, Paddy

AUDIT COMMITTEE

Mr. Lam Hoy Lee, Laurie
Mr. Lau Ka Ho
Mr. To Wing Tim, Paddy

COMPANY SECRETARY

Mr. Chang Chi Wai, Stanley
(appointed on 31 July 2012)
Mr. Cheung Ka Fai
(resigned on 31 July 2012)

COMPANY SOLICITORS

In Hong Kong

Chiu & Partners

In Bermuda

Appleby Spurling Hunter

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Bank of East Asia Limited
The Hongkong and Shanghai Banking
Corporation Limited
Industrial and Commercial Bank of China (Asia)
Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong

Tricor Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong
Tel: 2980 1333
Fax: 2810 8185
E-mail: is-enquiries@hk.tricorglobal.com
Website: www.tricoris.com

In Bermuda

Butterfield Corporate Services Limited

PRINCIPAL OFFICE IN HONG KONG

Room 4205, 42nd Floor
Far East Finance Center
16 Harcourt Road
Admiralty, Hong Kong
Tel: 2861 0704
Fax: 2861 3908
E-mail: admin@huscoke.com
Website: www.huscoke.com

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Chairman's Statement

I would like to present the annual audit consolidated results of Huscoke Resources Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

RESULTS AND BUSINESS OVERVIEW

2012 is another challenging year to the Group. China's economy entered an era of slow growth in recent years with prolonged tightening policies on the property market, the steel demand remained low for the whole of 2012, which led to the low demand and price reduction of our major product, coke, an ingredient in steel making process. Moreover, starting from March 2011, the Shanxi Provincial Government executed the consolidation of coal mine activities and some of the coal mines surrounding our production facilities have been closed for safety check and consolidation. Raw coal supplies in the region were seriously affected and we need to rely on coal mines in other regions with much higher transportation costs. These increased the purchase costs of raw materials.

Due to the above stated difficulties, the Group's total revenue dropped from HK\$1,847,609,000 in 2011 to HK\$1,146,763,000 in 2012, representing a 38% decrease. The Group recorded gross loss of HK\$35,199,000 as compared with gross profit of HK\$177,856,000 in 2011. Loss attributable to owners of the parent was HK\$390,303,000 (2011: HK\$488,020,000).

Moreover, as part of the PRC Governmental measures to meet the December 2012 deadline set by the World Trade Organization to remove export restrictions on industrial materials, starting from early January 2013, coke exports are no longer restricted by quota (which was the previous regulatory regime), but are regulated by a regime of export licenses. In addition, coke export tax charged at the rate of 40% in the past has also been abolished. The revocation of the coke export quota system may induce open competition to such coke-export business. Due to this change in PRC's coke export trading policy and for prudence, the Group has made an one-off impairment loss on other intangible asset in relation to the export agency agreements amounting to HK\$260,618,000 in the year (2011: HK\$435,030,000).

With the drop in the share price of the Company in last year which constitutes an event of defaults for the Group's convertible bonds issued in 2010, the management had negotiated with the bond holders to see whether they would exercise their right of early redemption. One of the bond holders, Passion Giant Investment Limited ("PGI") which holds convertible bonds with principal amount of HK\$154,000,000 first agreed to refrain from exercising its early redemption right in June 2011 by amending the conversion price. In December 2011, with the share price dropped again in September 2011, the Group and PGI entered into the Second PGI Amendment Agreement and the Second PGI Supplement Deed, pursuant to which PGI refrained from exercising the early redemption right, and certain other terms of the original bonds were amended, including the reset of conversion price, "where the average closing price per share for the period of 30 consecutive trading days ending on (and inclusive of) 31 December 2012 (the "Relevant Average Price") is less than the then prevailing conversion price. The Second PGI Amendment Agreement and the Second PGI Supplement Deed were conditional as at 31 December 2011. The shareholders' approval was obtained and other conditions were fulfilled on 28 February 2012.

The modification under the Second PGI Amendment Agreement and the Second PGI Supplemental Deed constituted a significant modification and was accounted for as an extinguishment of the original PGI convertible bonds and an issue of a new PGI convertible bonds. At 28 February 2012, the carrying value

Chairman's Statement

of liability component and derivative component of PGI convertible bonds were HK\$186,253,000 and HK\$41,434,000. The Company reassessed at 28 February 2012 the fair values of the new PGI convertible bonds in light of the modification of terms set out above, whereby the fair value of the liability component was determined at HK\$198,053,000 and the fair value of the derivative financial liabilities relating to equity conversion option, partial redemption option and the default redemption option were determined at HK\$6,408,000. These options are interdependent as only one of these options can be exercised. Therefore, they are not able to be accounted for separately and a single compound derivative financial instrument was recognised. The net effect of the above is a recognition of a gain of HK\$23,226,000 credited to the profit or loss.

With the loss suffered from operation and the one-off impairment loss on other intangible asset in relation to the export agency agreements, the Group's net assets as of 31 December 2012 was only HK\$1,320,730,000, this led to non-compliance with certain financial covenants stipulated in the 2012 PGI Amendments, in particular, "the net assets of the Company based on the audited consolidated financial statements for the most recent financial year or the audited consolidated management account of the most recent quarter, i.e. 31 December 2012, were less than HK\$1.5 billion". Thus the Group recorded a derivative financial instrument of HK\$46,025,000 as at 31 December 2012 which represented the fair value of the options on the new PGI CB and a loss on fair value change on derivative financial instruments of HK\$44,300,000.

Due to the above factors, the Group recorded a consolidated loss of HK\$398,782,000 (2011: HK\$483,321,000) for the year ended 31 December 2012. The loss mainly include (i) impairment loss on other intangible asset amounting to HK\$260,618,000 (2011: HK\$435,030,000); (ii) gain arising from modification of convertible bonds amounting to HK\$23,226,000 (2011: loss of HK\$17,272,000); (iii) fair value loss on derivative financial instruments of HK\$44,300,000 (2011: HK\$36,751,000); and (iv) other operating expenses of HK\$11,925,000 (2011: Nil). These items had not affected the Group's operating cash flows.

Moreover, due to a great portion of the Group's borrowings, convertible bonds and promissory notes will be due within the next 12 months from 31 December 2012, the net current liabilities and current ratio of the Group deteriorated from HK\$37,554,000 and 0.97 as at 31 December 2011 to HK\$379,735,000 and 0.64 as at 31 December 2012.

PROSPECTS

2012 is a very challenging and difficult year to the Group. However, with the coke price rebounded near the year end of 2012, the removal of the 40% coke export tax and the change of coke export regulation from export quota system to a regime of export license in 2013, the Group sees opportunities and believes the market will pick up in the coming years.

For the coke export trading business, following the abolition of the 40% coke export tax, it is expected that foreign customers will restart sourcing coke from the Group and our coke export trading business will resume this year. Moreover, the domestic coke market is expected to be more favorable due to a number of favorable factors, including speeding up of the urbanization in Mainland China, the RMB40 trillion Investments to be made by the government, the total fixed assets investment in the national railway system expected to be RMB650 billion, the recovering of real estate market, etc.

Chairman's Statement

Moreover, one of the Group's strategies is developing the upstream business by acquiring coal mines. A targeted mine is currently in the progress of the regional mine consolidation process and had already obtained the business licence. The mine is expected to resume production this year. The Group planned to explore the possibilities for acquiring this mine again once it resumes production. Management considered that if the Group can acquire a nearby coal mine, its coal supplies will be stable in both volume and price and also, we can enjoy the profit generated in coal mining, which is beneficial for the Group's long term development. In addition, the Group can enjoy the profits generated from mine exploration.

In order to improve the Group's liquidity and cash flows to sustain the Group and tackle the net current liabilities issue, the Group is taking the follow measures subsequent to the year end:

- (a) the Group has entered into a bank facility letter for additional banking facilities totaling RMB200 million;
- (b) the Group has signed a letter of intent with an independent third party in respect of a two-year unsecured credit facility for the sole purpose of redemption of convertible bonds upon maturity on 23 May 2013;
- (c) the Group has entered into an agreement with the holder of a promissory note and its affiliates pursuant to which the promissory note payable by the Group will be satisfied with trade related and other receivables due from, and prepayments paid to the noteholder and its affiliates upon maturity of the promissory note on 9 June 2013;
- (d) the settlement terms of other borrowing of HK\$15,594,000 which was repayable on demand as at 31 December 2012 had been rescheduled, and is now repayable after 31 May 2014; and
- (e) management has been implementing various strategies to improve the Group's operating performance.

After taking into account the above measures, the Management considers that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due and gets the Group ready when the recovery period of our industry arrives.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the shareholders of the Company for their continued support and sincerely thank the directors and staffs for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, bankers and convertible bond holders for their ongoing support.

Gao Jianguo

Chairman

28 March 2013

Directors and Senior Management

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Gao Jianguo, aged 56, has been appointed as an executive Director and the Chairman since September 2011. Mr. Gao joined the Xiaoyi City Jinyan Electrical Coal Chemical Engineering Co., Ltd. (the non-controlling shareholder of the Group's 90% owned Subsidiary Company) in 2001 and joined the 山西金岩和嘉能源有限公司 GRG Huscoke (Shan Xi) Ltd, and indirect 90%-owned subsidiary of the Company since 2008, and he is now its deputy general manager. He has over 30 years in import-exporting trading business and over 10 years of experience in the coke industry. Mr. Gao was graduated from the 山西財經學院 (Shanxi Finance & Economics College) in 1977.

Mr. Li Baoqi, aged 58, has been appointed as an executive Director since June 2008 and as Chief Executive Officer of the Company since September 2011. Mr. Li has over 25 years of working experience in foreign economy and trade. He worked as the Assistant to General Manager of 中國冶金進出口吉林公司 (China Metallurgy Import and Export Jilin Company), the Manager and the Assistant General Manager of the Import and Export Division of 中國冶金進出口深圳公司 (China Metallurgy Import and Export Shenzhen Company, now known as 中鋼集團深圳公司 (China Steel Group Shenzhen Company)).

Non-executive Directors

Mr. Wu Jixian, aged 49, has been appointed as an executive Director and Chief Executive Officer since June 2008 and has redesignated to non-executive director in September 2011. Mr. Wu has over 20 years of working experience in, variously, trading, marketing and China's coal industry. He worked as the Manager of Electric Appliance Export Division and Manager of Metallurgy & Mine Division of 中國機械設備進出口深圳公司 (China National Machinery & Equipment Import & Export Shenzhen Co. Ltd). He had also worked for certain oversea corporations, including the Sales Manager of JH Coal & Chemical International Inc., Canada, President of Marcell Industrial Inc., Canada and General Manager of Great Launch Inc., Canada.

Independent Non-executive Directors

Mr. Lau Ka Ho, aged 38, has been appointed as an independent non-executive Director of the Company since 21 April 2011 and is a member of the Nomination Committee and the Remuneration Committee and the Chairman of Audit Committee of the Company. Mr. Lau is currently the Chief Financial Officer and Company Secretary of Ajisen (China) Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited. Mr. Lau has over 10 years' experience in audit, finance and business advisory, during which he worked for the Deloitte Touche Tohmatsu and various listed companies in Hong Kong. Mr. Lau graduated from the Hong Kong Polytechnic University with a bachelor degree in Accountancy. He is certified public accountant and a member of the Hong Kong Institute of Certified Public Accountants.

Directors and Senior Management

Mr. Lam Hoy Lee, Laurie, aged 54, has been appointed as an independent non-executive Director since September 2008 and is a member of the Audit Committee and the Remuneration Committee and the Chairman of Nomination Committee of the Company. He has over 20 years of experience in legal field. Mr. Lam is a solicitor of Hong Kong, Singapore and a solicitor and counsel of Australia.

Mr. To Wing Tim, Paddy, aged 61, has been appointed as an independent non-executive Director of the Company since October 2009 and is a member of the Audit Committee and the Nomination Committee and the Chairman of Remuneration Committee of the Company. Mr. To obtained his diploma in accountancy from the University of Hong Kong in 1991 and has over 30 years of experience in auditing, accounting and finance industry and has been practicing as a Certified Public Accountant in Hong Kong since 1980. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, associate members of both the Taxation Institute of Hong Kong and Association of Certified General Accountants in Canada.

Senior management

Ms. Man See Yee, aged 39, has been appointed as the Chief Financial Officer since July 2012. Ms. Man has more than 15 years' working experience in the auditing, accounting and financial industry. She worked in two international accounting firms of senior positions responsible for leading auditing and transaction advisory engagements for multinational corporations, Chinese state-owned/private conglomerates, private equity funds and investment banks clients on their audits, listing applications, mergers and acquisitions, divestments, debt and equity capital raising deals. Prior to joining the Company, she was an associate director of Ernst & Young Transactions Limited. She is knowledgeable in both international as well as PRC business practices and has extensive experiences in a range of industries from natural resources, utilities, financial sectors, manufacturing, real estate, among others. Ms. Man holds a Bachelor degree in Professional Accountancy from The Chinese University of Hong Kong. She is a practising member of the Hong Kong Institute of Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants, a Hong Kong Chartered Tax Adviser and a Chartered Financial Analyst.

Mr. Chang Chi Wai, Stanley, aged 32, has been appointed as the Company Secretary since July 2012. Mr. Chang is a member of The Hong Kong Institute of Certified Public Accountants. He graduated from Simon Fraser University in Canada with a Bachelor's degree of Economics in 2002. He has 10 years' extensive experience in the economic management and accounting field. Mr. Chang joined the Company in April 2009 and is currently the Chief Accountant of the Company. He is familiar with the Company's secretarial practice and has a good understanding of the Company's operation and extensive experience in handling the relevant affairs.

Management Discussion and Analysis

BUSINESS REVIEW

2012 is another challenging year to the Group, with the total revenue dropped from HK\$1,847,609,000 in 2011 to HK\$1,146,763,000 in 2012, representing a 38% decrease. The Group recorded gross loss of HK\$35,199,000 as compared with gross profit of HK\$177,856,000 in 2011. Loss attributable to owners of the parent was HK\$390,303,000 (2011: HK\$488,020,000).

China's economy entered an era of slow growth in recent years with prolonged tightening policies on the property market, the steel demand remained low for the whole of 2012, which led to the low demand and price reduction of our major product, coke, an ingredient in steel making process. The gross loss position was also resulted from the PRC Governmental consolidation of coal mines in the Shanxi Province. Starting from March 2011, the Shanxi Provincial Government executed the consolidation of coal mine activities and some of the coal mines surrounding our production facilities have been closed for safety check and consolidation. Raw coal supplies in the region were seriously affected and we need to rely on coal mines in other regions with much higher transportation costs. These increased the purchase costs of raw materials.

Coke trading segment

After the economic crisis and the increase in the PRC export tax from 25% to 40% in late 2008, demand for the PRC's export coke was sharply reduced and the Group has turned to focus on the domestic market instead. However, due to the unfavorable market condition, the coke trading business has been frozen in 2012 and the revenue contributed by this segment was only HK\$14,699,000 in the year (2011: HK\$176,298,000).

Moreover, as part of the PRC Governmental measures to meet the December 2012 deadline set by the World Trade Organization to remove export restrictions on industrial materials, starting from early January 2013, coke exports are no longer restricted by quota (which was the previous regulatory regime), but are regulated by a regime of export licenses. In addition, coke export tax charged at the rate of 40% in the past has also been abolished. The revocation of the coke export quota system may induce open competition to such coke-export business. Due to this change in PRC's coke export trading policy and for prudence, the Group has made an one-off impairment loss on other intangible asset in relation to the export agency agreements amounting to HK\$260,618,000 in the year (2011: HK\$435,030,000). The impairment loss is a non-cash item, which does not have any impact on the Group's operating cash flows.

Coal-related ancillary segment

The coal-related ancillary segment related to the washing of raw coal into refined coal for sales and for further processing, and the sale of electricity and heat which is generated as the by-products during washing of raw coal.

Management Discussion and Analysis

Due to the PRC Governmental consolidation of coal mines in the Shanxi Province since March 2011, many coal mines near our coal washing plants were closed for safety checks, this reduced the supplies of coals near our plant. Thus the Group need to rely on coal mines in other regions with much higher transportation costs. Moreover, due to the consolidation of mines, smaller mines are out of business and bigger mines usually has their own coal washing plants, so the Group needed to purchase more refined coal rather than raw coal for coke production. This reduced the activities of our coal-related ancillary segment and led to reduction of revenue contributed by this segment from HK\$497,027,000 in 2011 to HK\$285,349,000 in the current year, representing a 43% decrease.

Coke production segment

Due to the reduction of the coke price in 2012 and the high outsourced refined coal purchase price resulted from the above mentioned reasons, the Group intentionally lowered the coke production quantity this year. Thus the coke production segment also recorded reduced revenue from HK\$1,174,284,000 in 2011 to HK\$846,715,000 in 2012, representing a 28% decrease.

The amounts of selling and distribution costs have been reduced from 2011's HK\$92,972,000 to 2012's HK\$41,517,000. The reduction was in line with the drop in revenue.

The amount of finance costs also decreased from HK\$74,192,000 in 2011 to HK\$63,285,000. To finance the acquisition of coking plant, the Group has issued two tranches of convertible bonds to Passion Giant Investment Limited ("PGI") and CSOP Asset Management Limited ("CSOP") with face value of HK\$154,000,000 and HK\$38,500,000, respectively, on 24 May 2010 and two tranches of promissory notes to the Non-controlling Shareholder with principal amount of RMB191,740,000 (equivalent to HK\$219,000,000 as at 10 June 2010) each on 10 June 2010. In 2011, the Group bore a full year of convertible bonds' interests and promissory notes' imputed interests. As the Group had fully redeemed the CSOP convertible bond in November 2011 and one of the promissory notes matured on 9 December 2011 and was fully repaid, the interest expenses in current year decreased accordingly.

IMPAIRMENT OF OTHER INTANGIBLE ASSET

The Group had other intangible asset of HK\$277,432,000 as of 31 December 2011 which relates to an export agency agreement entered into between a PRC coke supplier, which is the Non-controlling Shareholder, and Huscoke International Group Limited ("HIG"), a wholly-owned subsidiary of the Group incorporated in Hong Kong. The agreement entitled the Group to have an exclusive right to handle the export business of coke for the supplier. The agreement was effective for three years from the agreement date of 1 January 2007, and would continue to be effective if there is no change related to the contractual parties. The directors of the Company were of the opinion that the coke supplier would be able to obtain the export quota from the relevant PRC government authority for a period of not less than 20 years and has the ability to utilise the export quota, and that the Group would continue to maintain a relationship with the coke supplier such that HIG would continue to handle the export business of coke from the coke supplier for the 20-year duration. On 1 July 2010, a modified export agency agreement was

Management Discussion and Analysis

entered into between the coke supplier and HIG, in which the coke supplier agreed to continue to grant HIG the exclusive right to handle the export business of coke from the supplier, and where the export quantity falls short of the export quota granted by the relevant PRC government authority, the difference would be supplied to HIG or its nominee for domestic sales in Mainland China. The modified export agency agreement is effective for three years from 1 July 2010, and will continue to be effective if there is no change to the contractual parties.

Taking into consideration market and competitive information, the Group had, in prior years, estimated the useful life of the other intangible asset to be 20 years, being the period over which the Group is expected to generate net cash flows. The discounted cash flow method, with cash flow projections covering 20 years, being the estimated period of the export agency agreement with the sole supplier, and a discount rate of 13.4% had been used to estimate the fair value of the intangible asset at date of acquisition. The intangible asset was to be amortised on the straight-line basis over the estimated useful life of 20 years.

Effective from 1 January 2013, the exports of coke are no longer regulated under the quota system by the relevant PRC government authority. Instead, export coke business is conducted through a regime of export licence which is not restricted to designated entities. In the opinion of the directors, the value to the exclusive right to handle export of coke stemmed from the relationship with the coke supplier has diminished as result of the deregulation. Following this regulatory change, the directors considered that the recoverable amount of the other intangible asset was minimal as at 31 December 2012. An impairment provision of HK\$260,618,000 (2011: HK\$435,030,000) for the other intangible asset has been recognised in profit or loss for the year ended 31 December 2012.

LOSSES RELATED TO 2010 CONVERTIBLE BONDS

On 24 May 2010, the Company issued HK\$192,500,000, 8% convertible bonds (the "2010 Convertible Bonds") to two independent third parties, Passion Giant Investment Limited ("PGI") in the amount of HK\$154,000,000 ("PGI CB") and CSOP Asset Management Limited ("CSOP"), in the amount of HK\$38,500,000 ("CSOP CB"). The 2010 Convertible Bonds mature on 23 May 2013. Interest is paid semi-annually in arrears in May and November of each year.

The bondholders may, at any time before the maturity date, convert in whole or in part the 2010 Convertible Bonds into ordinary shares of the Company at the conversion price of HK\$0.55 per share, subject to adjustments. Upon full conversion of the 2010 Convertible Bonds, it would, under the present capital structure of the Company, result in the issue of 350,000,000 new shares of the Company.

Unless previously redeemed or converted or purchased and cancelled as provided in the respective subscription agreements, the 2010 Convertible Bonds will be redeemed on the maturity date at the principal amount plus accrued and unpaid interest, together with an additional amount as premium such that interest plus the said additional amount will be equivalent to a rate of return of 18% per annum throughout the bond issue period.

Management Discussion and Analysis

The bondholders are granted a partial redemption option in which the holders are entitled to request the Company to redeem one-third of the 2010 Convertible Bonds at a redemption price of 92% of the face value of the bonds during the bond issue period. A default redemption option is also granted in which the bondholders are entitled to request the Company to redeem the 2010 Convertible Bonds in full at a redemption price at 25% over the face value of the bonds in the events of default. These options constitute derivative financial liabilities of which the fair values were immaterial at the issue date.

At issue date of 24 May 2010, the 2010 Convertible Bonds are secured by the followings:

- (i) charge over all shares of Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, wholly-owned subsidiaries of the Group; and
- (ii) a pledge by Mr. Wu Jixian, a non-executive director and a substantial shareholder of the Company, of the zero coupon convertible bonds with a principal amount of HK\$577,500,000 and carrying amount of HK\$822,938,000 to Mr. Wu on 31 October 2008 (“Tranche 2 Bonds”).

Further details of the 2010 Convertible Bonds are set out in the Company’s announcement dated 6 May 2010.

On 25 May 2011, the 30 trading day average closing price of the Company’s shares was HK\$0.384, which was less than 70% of the original conversion price of the 2010 Convertible Bonds of HK\$0.55. This constituted an event of default. This allowed the bondholders to request the Company to redeem the 2010 Convertible Bonds in full at a redeemed price of 25% over the face value of the bonds.

2011 CSOP redemption

On 7 September 2011, the Company and CSOP came to an agreement to change the terms of the 2010 Convertible Bonds held by CSOP which allowed the Company to early redeem the CSOP CB at HK\$45,873,000. As at 7 September 2011, the carrying value of liability component of the CSOP CB was HK\$41,496,000. The difference between the redemption value of the CSOP CB of HK\$44,849,000 and its carrying value in respect of liability component at the early redemption date of 7 September 2011 was a loss of HK\$3,353,000, and had been charged to the profit or loss for the year. The corresponding equity component in the amount of HK\$2,753,000 was transferred from the convertible bond reserve to retained earnings.

2011 PGI Amendments

On 29 June 2011, PGI gave confirmation and entered into a supplemental deed (the “First PGI Supplemental Deed”) that it would refrain from exercising the early redemption right and sanctioned the modification of the 2010 Convertible Bonds it held, pursuant to which, and among other matters, the conversion price was adjusted from HK\$0.55 to HK\$0.30 per share. The other principle terms including the coupon rate, the default redemption premium and the redemption premium, the partial redemption

Management Discussion and Analysis

option and the maturity date remained the same. Such modification of terms constituted a material modification and was accounted for as an extinguishment of the original PGI CB and an issue of a new PGI CB. As at 29 June 2011, the carrying values of liability component and equity component of PGI CB were HK\$152,011,000 and HK\$14,011,000, respectively.

The Company reassessed the fair value of the new PGI CB in light of the modification of terms set out above, whereby the fair value of the liability component was determined as HK\$169,283,000, and fair values of the derivative financial liabilities relating to the partial redemption option and the default redemption option, together with the equity component, were immaterial. The net effect of the above is a recognition of loss of HK\$17,272,000 charged to the profit or loss and a transfer of HK\$14,011,000 from the convertible bond reserves to retained earnings.

2012 PGI Amendments

On 28 September 2011, the 30 trading day average closing price of the Company's shares was HK\$0.209, which was less than 70% of the adjusted conversion price of the PGI CB of HK\$0.30. This constituted an event of default. After negotiation, the Company and PGI entered into an amendment agreement and supplemental deed (the "Second PGI Amendment Agreement and Second PGI Supplemental Deed") on 30 December 2011, pursuant to which, PGI gave confirmation that it would refrain from exercising the early redemption right and sanctioned the modifications of certain terms of the PGI CB, including but not limited to:

- (i) the conversion price of HK\$0.30 per share was to be adjusted to HK\$0.22 per share;
- (ii) the removal of the event of default that if, at any time, the average 30 consecutive trading days' closing price per share is less than 70% of the conversion price;
- (iii) the reset of conversion price, "where the average closing price per share for the period of 30 consecutive trading days ending on (and inclusive of) 31 December 2012 (the "Relevant Average Price") is less than the then prevailing conversion price (i.e. HK\$0.22 per share or such other amount as may be adjusted in accordance with the other conditions set out therein), with effect from 31 December 2012, the conversion price shall be adjusted to such amount as equal to the Relevant Average Price subject to a floor of nominal value of the Company's share. For avoidance of doubt, where the Relevant Average Price is equal to or more than the then prevailing conversion price, the above adjustment shall not be made"; and
- (iv) an additional pledge of Tranch 2 Bonds having an aggregate outstanding principal amount of HK\$120,000,000 and carrying amount of HK\$171,000,000 as at 31 December 2012 from Mr. Wu Jixian, a non-executive director and a substantial shareholder of the Company.

The redemption premium, the default redemption premium and maturity date remained the same.

Management Discussion and Analysis

Further details of the Second PGI Amendment Agreement and Supplemental Deed are set out in the Company's circular dated 2 February 2012.

The Second PGI Amendment Agreement and the Second PGI Supplemental Deed were conditional as at 31 December 2011, subject to the fulfilment for certain conditions including the approval of shareholders at a special general meeting. Accordingly, the carrying value of the PGI CB of HK\$180,556,000 was classified as current liability at 31 December 2011. The approval of shareholders was obtained, and fulfilment of other conditions was achieved, on 28 February 2012.

The modification under the Second PGI Amendment Agreement and the Second PGI Supplemental Deed constituted a significant modification and was accounted for as an extinguishment of original PGI CB and an issue of a new PGI CB. At 28 February 2012, the carrying value of liability component and derivative component of the PGI CB was HK\$186,253,000 and HK\$41,434,000, respectively. The Company reassessed the fair values of the new PGI CB on that date in light of the modification of terms set out above, where the fair value of the liability component was determined at HK\$198,053,000 and fair value of the derivative financial liabilities relating to equity conversion option, partial redemption option and the default redemption option was determined at HK\$6,408,000. These options are interdependent as only one of these options can be exercised. Therefore, they are not able to be accounted for separately and a single compound derivative financial instrument was recognised. The net effect of the above is a recognition of gain of HK\$23,226,000 charged to the profit or loss.

As at 31 December 2012, the PGI CB is secured by the following:

- (i) charge over all shares of Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, wholly-owned subsidiaries of the Group; and
- (ii) a pledge by Mr. Wu Jixian, a non-executive director and substantial shareholder of the Company, of the Tranche 2 Bonds having an aggregate outstanding principal amount of HK\$582,000,000 (2011: HK\$462,000,000) and carrying amount of HK\$829,350,000 (2011: HK\$658,350,000).

The Relevant Average Price was HK\$0.076, and was less than the nominal value of the Company's share of HK\$0.1 per share. The conversion price of PGI CB was reset to HK\$0.1 with effect from close of business on 31 December 2012 pursuant to the Second PGI Amendment Agreement and Second PGI Supplemental Deed.

On 31 December 2012, the Group had not complied with certain financial covenants stipulated in the 2012 PGI Amendments, in particular, "the net assets of the Company based on the audited consolidated financial statements for the most recent financial year or the audited consolidated management account of the most recent quarter, i.e. 31 December 2012, were less than HK\$1.5 billion".

The derivative financial instruments of HK\$46,025,000 at 31 December 2012 (2011: HK\$36,751,000) represented the fair value of the options on the PGI CB at the end of the reporting period.

Management Discussion and Analysis

CHARGES OVER ASSETS

As at 31 December 2012, the Group pledged certain land and buildings which have an aggregate carrying value of approximately HK\$107,195,000 (2011: HK\$109,561,000) to secure a mortgage loan and general banking facilities granted to the Group. The amount of the bank borrowings outstanding at 31 December 2012 was HK\$76,239,000 (2011: HK\$32,400,000). In order to secure the PRC banking facilities, the Group pledged a deposit of around HK\$121,951,000 as at 31 December 2011. The Group had no pledged deposit as at 31 December 2012.

Moreover, shares of three of the subsidiaries, Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, have been pledged to secure the PGI CB.

CAPITAL STRUCTURE AND CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

The Group's principal financial instruments comprise promissory notes, convertible bonds, derivative financial instruments, and interest-bearing bank and other borrowings. 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 and bills receivables, deposits and other receivables, amounts due from/to the Non-controlling Shareholder, pledged deposits, cash and cash equivalents, trade and bills payables, and other payables, and accruals, 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 regularly monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, an amount due to the Non-controlling Shareholder, and promissory notes, net of cash and cash equivalents. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at 31 December 2012 was 36% (2011: 38%).

Management Discussion and Analysis

As at 31 December 2012, the equity attributable to owners of the Company amounted to HK\$1,175,363,000 (2011: HK\$1,551,413,000). Taking into account of shares issued during the year and upon full conversion of 2008 Convertible Bonds, the equity attributable to owners of the Company per share was HK\$0.20 per share (2011: HK\$0.26 per share). Decrease in equity attributable to owners of the Company was mainly attributable to the loss incurred during the year.

LIQUIDITY AND FINANCIAL RESOURCES

Net current liabilities and current ratio were HK\$379,735,000 (2011: HK\$37,554,000) and 0.64 (2011: 0.97) respectively as at 31 December 2012, which include convertible bonds of HK\$205,789,000 (2011: HK\$180,556,000), interest-bearing bank and other borrowings of HK\$128,833,000 (31 December 2011: HK\$193,196,000) and promissory notes of HK\$231,171,000 (2011: Nil). The deterioration in the net current liability position is due to the Group's borrowings, convertible bonds and promissory notes due within the next 12 months from 31 December 2012. The promissory note matures on 9 June 2013 and its balance of HK\$216,836,000 was included in non-current liabilities as of 31 December 2011 and its balance of HK\$231,171,000 was included in current liabilities as of 31 December 2012.

Due to adoption of HK Interpretation 5, the Group's mortgage loan of HK\$71,863,000 (2011: HK\$27,000,000) which is repayable beyond twelve months from the end of the reporting period in accordance with its original repayment schedule was classified as current liability because the loan terms contained a repayment on demand clause.

The Group's bank balances and cash equivalents amounted to HK\$9,986,000 (2011: HK\$11,380,000). As at 31 December 2012, the Group has bank and other borrowings amounting to HK\$128,833,000 (2011: HK\$193,196,000).

Moreover, during the first half of 2012, in order to secure the PRC banking facilities for issuing bills, the Group obtained cash advances from the Non-Controlling Shareholder and pledged the deposit with the PRC banks. The Group then issued bills payable for purchases as well as repayment of the cash advances from the Non-controlling shareholder. The bills payable and the cash advances related to this arrangement had been fully settled during the year. As of 31 December 2012, the bills payable amounting to Nil (2011: HK\$121,951,000).

In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group is taking the follow measures subsequent to the year end:

- (a) the Group has entered into a bank facility letter for additional banking facilities totaling RMB200 million;
- (b) the Group has signed a letter of intent with an independent third party in respect of a two-year unsecured credit facility for the sole purpose of redemption of convertible bonds upon maturity on 23 May 2013;

Management Discussion and Analysis

- (c) the Group has entered into an agreement with the holder of a promissory note and its affiliates pursuant to which the promissory note payable by the Group will be satisfied with trade related and other receivables due from, and prepayments paid to, the noteholder and its affiliates upon maturity of the promissory note on 9 June 2013;
- (d) the settlement terms of other borrowing of HK\$15,594,000 which was repayable on demand as at 31 December 2012 had been rescheduled, and is now not repayable before 31 May 2014; and
- (e) management has been implementing various strategies to improve the Group's operating performance.

After taking into account the above measures, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

OPERATING LEASE AND CAPITAL COMMITMENTS

As at 31 December 2012, the Group had operating lease commitments of HK\$9,256,000 (2011: HK\$10,856,000).

As at 31 December 2012, the Group had authorised, but not contracted for capital commitment of HK\$23,855,000 (2011: HK\$17,290,000) and contracted, but not provided for capital commitments of HK\$18,007,000 (2011: HK\$31,771,000) in respect of plant and equipment acquisitions.

INTEREST RATE RISK

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's fair value interest rate risk relates primarily to short term pledged bank deposits. The Group is also exposed to cash flow interest rate risk through the impact of interest rate changes on deposits with banks and floating interest rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Management Discussion and Analysis

FOREIGN CURRENCY RISK

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB"), United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group is exposed to foreign currency risk arising from the monetary assets and liabilities that are denominated in other than functional currency of the respective group entities.

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

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group had approximately 1,800 employees (2011: approximately 1,700 employees). Less than 10 staffs are stationed in Hong Kong and the rest are PRC workers. The Group's staff costs amounted to approximately HK\$73,441,000 for the year ended 31 December 2012 and approximately HK\$76,794,000 was recorded in the corresponding period of last year.

Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment and a year-end performance bonus to reward motivated individual performance. Up to the date of this announcement, there are 30,100,000 share options granted under the share option scheme.

PROSPECTS

2012 is a challenging and difficult year to the Group. However, with the coke price rebounded near the year end of 2012, the removal of the 40% coke export tax and the change of coke export regulation from export quota system to a regime of export license in 2013 (details of which was mentioned in the paragraphs above), the Group sees opportunities and believes the market will pick up in the coming years. Following the abolition of the 40% coke export tax, it is expected that foreign customers will restart sourcing coke from the Group and our coke export trading business will resume this year.

Moreover, the domestic coke market is expected to be more favorable due to the following factors:

- a) After the 18th National Congress of the Communist Party of China, the macroeconomic condition of China becomes clear and the central government has set the next year's economic policy, which led to better economic outlook.

Management Discussion and Analysis

- b) The steel demand is expected to increase due to the following factors:
- i. It is expected that the government will speed up the urbanization and the RMB40 trillion investments.
 - ii. In the National Railway Working Committee meeting held on 17 January 2013 pointed out that the total fixed assets investment in the national railway system will be RMB650 billion.
 - iii. The real estate market is recovering.

The above factors mean that the domestic steel market fundamentals have improved, which will surely benefit the coke industry.

- c) Excess capacity is one of the biggest constraints restricting the development of domestic coke industry. On 1 October 2012, the State Ministry of Environmental Protection and the State General Administration of Quality Supervision, Inspection and Quarantine jointly issued the "Coke Chemical Industrial Pollutant Emission Standards" (《煉焦化學工業污染物排放標準》). It is believed this will speed up the elimination of small coke producers and accelerate the pace of the industry restructuring. Moreover, in order to adapt to the fast changing of the macro-economic and for energy saving, environmental protection and other requirements, the Ministry of Industry and Information Technology is considering modifying the "Coking Industry Access Conditions" (《焦化行業准入條件》). This will help to ease the competition in the coke market and also reduce the overcapacity of the coke production.
- d) Many domestic small and medium-sized coal mines generally suspend production for rectification and safety checks, which lead to tighter resources of the coke market and lead to increases of coke prices should the coke demand increase.
- e) The long lasting dual pricing system (煤炭價格雙軌制) and "Coal Ordering Conference" (煤炭訂貨會) was formally terminated and the domestic coal prices become fully market-oriented in 2013.

The sharp increase in the purchase costs of raw materials due to the safety check of the coal mine under the PRC Governmental consolidation of coal mines exercise in 2011 taught Huscoke a lesson and re-confirms the Group's strategy in developing the upstream business. In August 2010, the Group has signed a non-legal binding memorandum of understandings ("**First MOU**") with the Non-controlling Shareholder of our Joint Venture in the PRC ("**GRG**"), for the proposed acquisition of coal mines. At the date of this announcement, most of the due diligence works including the financial, technical or valuation, on a targeted coal mine has been completed. The mine is currently in the progress of consolidation and had already obtained the business licence. It is expected to resume production this year. The First MOU had been extended to 30 June 2012 and was expired subsequently. The Group planned to explore the possibilities for acquiring this mine again with GRG once the mine commences production again. Management considered that if the Group can acquire a nearby coal mine, it's coal supplies will be stable

Management Discussion and Analysis

in both volume and price and also, we can enjoy the profit generated in coal mining, which is beneficial for the Group's long term development.

In September 2010, the Group has signed another non-legal binding memorandum of understandings ("**Second MOU**") with GRG. This Second MOU mainly related to the proposed cooperation with GRG for the construction of a new coking plant with annual capacity of 2 million tonnes. Up to the date of this Report, the Group has invested around RMB2 million in this project and there is no additional commitment for the Group at this stage. The construction works of the new plant has started in 2011 and was wholly financed by GRG itself and the Group will assess its financial abilities and the prospects of the industry before joining the project.

Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) from time to time.

(1) CORPORATE GOVERNANCE PRACTICES

The Company is committed to upholding good corporate governance. The Board considers effective corporate governance essential to protect shareholders’ interests and enhance stakeholders’ value. During the year 2012, the Board has continued to spend considerable efforts to identify and formalize the appropriate corporate governance practices to ensure transparency, accountability and effective internal control.

The Company has complied with the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) for the year ended 31 December 2012.

Code Provision A.6.7

Under code provision A.6.7 of the CG Code, the independent non-executive Directors and the non-executive Director should attend the general meetings of the Company. However, due to other business commitment, independent non-executive Directors Mr. Lam Hoy Lee, Laurie, Mr. To Wing Tim, Paddy and Mr. Lau Ka Ho did not attend the special general meeting held on 20 February 2012. Also, the non-executive Director Mr. Wu Jixian did not attend the special general meeting held on 20 February 2012 and also the annual general meeting held on 1 June 2012 as he was not in Hong Kong in both dates. Despite the fact that the non-executive Directors and independent non-executive Directors were not able to attend those general meetings, all directors were fully aware of the matters discussed and the corresponding resolutions through discussions among themselves and with the executive Directors.

(2) DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transaction by the directors of the Company (the “Code”). Having made specific enquiry of the directors of the Company, all directors confirmed that they had complied with the required standard as set out in the Code during the year ended 31 December 2012.

(3) CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Corporate Governance Report

Up to the date of this annual report, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Own Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

(4) BOARD OF DIRECTORS

The Board's role is clearly defined as directing and supervising the affairs of the Group, establishing its strategic direction and setting objectives and business development plans to ensure appropriate business conduct and effective management of the highest quality. The management of the Company is responsible for the implementation of the strategies, objectives and plans determined by the Board. The Chairman of the Company is Mr. Gao Jianguo. The Chief Executive Officer is Mr. Li Baoqi. The role of the Chairman is clearly segregated from that of the Chief Executive Officer. The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Group establishes sound corporate governance practices and procedures and encourages the Directors to make a full and active contribution to the affairs of the Board. The Chief Executive Officer is responsible for the day-to-day management of the business of the Group.

The Board is led by the Chairman and comprises two executive Directors (one of whom is the Chairman), one non-executive Director, and three independent non-executive Directors. All Directors come from diverse business and professional background, providing valuable expertise and experience for promoting the best interests of the Group and its shareholders. The independent non-executive Directors represent at least, one-third of the Board. The Company has received confirmation from each independent non-executive Director about his independence under Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

To oversee particular aspects of the Group's affairs and to assist in the execution of its responsibilities, the Board has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee. Independent non-executive Directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

All Board committees of the Company are established with defined written terms of reference.

All members of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive directors.

The Directors' biographical information is set out in the section headed "Directors and Senior Management" in this annual report.

Corporate Governance Report

The Board meets regularly at least four times a year. For all such meetings, adequate and appropriate information, in the form of agenda, board papers and related materials, are prepared and provided to the Directors prior to the scheduled dates for the Board meeting in a timely manner.

The Company held six full Board meetings in 2012. Individual attendance of each Director is set out below.

| | <i>Notes</i> | Number of Meetings attended |
|--|--------------|------------------------------------|
| Chairman | | |
| Mr. Gao Jianguo | | 6/6 |
| Executive Directors | | |
| Mr. Li Baoqi | | 6/6 |
| Mr. Cheung Ka Fai | 1 | 4/6 |
| Non-executive Director | | |
| Mr. Wu Jixian | | 2/6 |
| Independent Non-executive Directors | | |
| Mr. Lam Hoy Lee, Laurie | | 5/6 |
| Mr. To Wing Tim, Paddy | | 6/6 |
| Mr. Lau Ka Ho | | 6/6 |

Notes:

1. Mr. Cheung Ka Fai resigned as executive Director on 31 July 2012.

(5) NON-EXECUTIVE DIRECTORS

None of the existing non-executive Directors of the Company was appointed for a specific term.

(6) CONTINUING DEVELOPMENT OF DIRECTORS

To ensure the Directors' contribution to the Board remains informed and relevant and in compliance with code provision A.6.5 of the CG Code, all Directors should participate in the continuous professional training to improve and enrich their knowledge and skills. During the year ended 31 December 2012, all Directors have (i) participated in continuous professional development programmes such as external seminars organized by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board; or (ii) went through information on the Listing Rules and other latest information on regulatory requirements. The training records of each Director are kept and updated by Company Secretary of the Company.

Corporate Governance Report

(7) REMUNERATION COMMITTEE

The Remuneration Committee currently comprises all three independent non-executive directors and Mr. To Wing Tim, Paddy is the Chairman. The Committee assists the Board in achieving its objective of attracting, retaining and motivating people of the highest caliber and experience needed to develop and implement the Group's strategy taking into consideration its operations. The main duties of the Remuneration Committee are to:

- (i) make recommendations to the Board on the remuneration packages of executive directors and senior management, the remuneration policy and structure for all directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) was adopted) and the remuneration of non-executive directors; and
- (ii) establish transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration.

The Company held two committee meetings in 2012. Individual attendance of each Director is set out below:

| | Number of Meetings attended |
|--|------------------------------------|
| Chairman | |
| Mr. To Wing Tim, Paddy | 2/2 |
| Independent Non-executive Directors | |
| Mr. Lam Hoy Lee, Laurie | 2/2 |
| Mr. Lau Ka Ho | 2/2 |

The work of the Remuneration Committee during 2012 included:

- reviewing the Group's incentive schemes; and
- reviewing the remuneration packages of Directors and senior staff of the Group and grant of share options of the Company.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

| Remuneration band | Number of individuals |
|--------------------------|------------------------------|
| Nil to HK\$500,000 | 2 |

Information relating to the remuneration of each director for 2012 is set out in Note 8 to the financial statements.

Corporate Governance Report

(8) NOMINATION COMMITTEE

The Nomination Committee currently comprises all three independent non-executive directors and Mr. Lam Hoy Lee, Laurie is the Chairman. The main duties of the Nomination Committee are to:

- (i) review the structure, size and composition of the Board (including the skills, qualifications, knowledge and experience) on a regular basis and make recommendations to the Board regarding any proposed changes;
- (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) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors of the Company and succession planning for Directors of the Company in particular the Chairman and the Chief Executive Officer of the Company;
- (iv) assess the independence of independent non-executive Directors of the Company; and
- (v) do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board.

The Company held one committee meeting in 2012. Individual attendance of each Director is set out below.

| | Number of Meetings attended |
|--|--|
| Chairman | |
| Mr. Lam Hoy Lee, Laurie | 1/1 |
| Independent Non-executive Directors | |
| Mr. To Wing Tim, Paddy | 1/1 |
| Mr. Lau Ka Ho | 1/1 |

The work of the Nomination Committee during 2012 included:

- review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company;
- recommendation of the re-appointment of those Directors standing for re-election at the 2012 annual general meeting of the Company; and
- assessment of the independence of all the independent non-executive Directors of the Company.

Corporate Governance Report

(9) AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2012 is set out in the section headed "Independent Auditors' Report" in this annual report.

For the year ended 31 December 2012, the Auditors of the Company received approximately HK\$2.13 million for audit services (2011: HK\$2.00 million).

(10) AUDIT COMMITTEE

The Audit Committee currently comprises all three independent non-executive directors and Mr. Lau Ka Ho is the Chairman. The Committee assists the Board in fulfilling its responsibility for reviewing the accounting principles and practices, auditing, internal control and regulatory compliance of the Group. It also reviewed the interim and final results of the Group prior to recommending them to the Board for approval. The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the Corporate Governance Code.

The Company held two committee meetings in 2012. Individual attendance of each Director is set out below:

| | Number of Meetings attended |
|--|--|
| Chairman | |
| Mr. Lau Ka Ho | 2/2 |
| Independent Non-executive Directors | |
| Mr. Lam Hoy Lee, Laurie | 2/2 |
| Mr. To Wing Tim, Paddy | 2/2 |

The work of the Audit Committee during 2012 included:

- reviewing the Directors' Report and full year accounts for the year ended 31 December 2012 and the annual results announcement;
- reviewing the interim accounts for the six months ended 30 June 2012 and the interim results announcement;
- reviewing the internal audit plan and internal control system for 2012;
- reviewing the adequacy and effectiveness of the Company's financial reporting system and risk management system.

Corporate Governance Report

(11) INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implement an effective and sound internal controls system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewed of all relevant financial, operational, compliance controls and risk management function within an established framework.

(12) DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditors' Report" in this annual report.

(13) COMPANY SECRETARY

The Company Secretary supports the Chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. He advises the Board on the corporate governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the Listing Rules. During the year ended 31 December 2012, Mr. Chang Chi Wai, Stanley has taken no less than 15 hours of relevant professional training. He was appointed by the Company as the Company Secretary on 31 July 2012. Biographical details of Mr. Chang are set out in the section headed "Directors and Senior Management" in this annual report.

Corporate Governance Report

(14) SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene an special general meeting

1.1 The following procedures for shareholders of the Company to convene a special general meeting of the Company are prepared in accordance with the Bermuda Companies Act 1981:

- (1) The Directors of the Company, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.
- (2) The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.
- (3) If the Directors do not within 21 clear days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, 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.
- (4) A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.
- (5) Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a meeting shall be repaid to the requisitionists by the Company, and any sum so repaid shall be retained by the Company out of any sums due or to become due from the Company by way of fees or other remuneration in respect of their services to such Directors as were in default.

2. Procedures for directing enquiries to the Board

Shareholders may direct enquiries to the Board at any time. Such enquiries can be addressed to the Company Secretary by mail to the Company's principal office in Hong Kong at Room 4205, 42nd Floor, Far East Finance Center, 16 Harcourt Road, Admiralty, Hong Kong, or by email to admin@huscoke.com. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Corporate Governance Report

3. Procedures and contact details for putting forward proposals at shareholders' meetings

There are no provisions allowing Shareholders to propose new resolutions at general meetings under the Bermuda Companies Act 1981 Law or the Bye-laws of the Company. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

(15) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

Shareholders are provided with contact details of the Company, such as telephone number, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. In addition, Shareholders can contact Tricor Secretaries Limited, the Hong Kong branch share registrar of the Company, if they have any enquiries about their shares and dividends. The contact details of the Company and Tricor Secretaries Limited are set out in the section entitled "Corporate Information" in the annual report.

The Company's annual general meeting allows the Directors to meet and communicate with Shareholders. The Company ensures that Shareholders' views are communicated to the Board. The Chairman of the annual general meeting proposes separate resolutions for each issue to be considered. Members of the Audit, Remuneration and Nomination Committees and the external auditors also attended the annual general meeting to answer questions from Shareholders.

Annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of annual general meeting is distributed to all Shareholders at least 21 clear days prior to the annual general meeting and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The Chairman of the annual general meeting exercises his power under the bye-laws to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Voting results are posted on the Group's website in accordance with the Listing Rules.

To enhance transparency and effectively communicate with the investment community, the executive Directors and senior management of the Company actively maintains close communications with various institutional investors, financial analysts and financial media during the year. Investors are welcome to share their views with the Board by writing to the Company at its Hong Kong head office or sending enquiries to the Company's email at admin@huscoke.com. Investors and Shareholders are welcome to review the Company's recent announcements at the Company's web site at www.huscoke.com.

Report of the Directors

The Directors 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 Company is an investment holding company. The activities of its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND DIVIDENDS

Details of the loss of the Group for the year ended 31 December 2012 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 42 to 141.

The Directors do not recommend the payment of a final dividend (2011: Nil).

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 30 to the financial statements.

DIRECTORS

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

Executive directors:

Mr. Gao Jianguo (*Chairman*)

Mr. Li Baoqi

Mr. Cheung Ka Fai (*resigned on 31 July 2012*)

Non-executive director:

Mr. Wu Jixian

Independent non-executive directors:

Mr. Lam Hoy Lee, Laurie

Mr. Lau Ka Ho

Mr. To Wing Tim, Paddy

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

In accordance with Bye-law 99 (as amended by Bye-law 182(vi)) and Bye-law 102 of the Company's Bye-laws, Mr. Li Baoqi, Mr. Wu Jixian and Mr. Lau Ka Ho retire, and being eligible, offer themselves for re-election.

The directors being proposed for re-election at the forthcoming annual general meeting do not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of a compensation (other than statutory compensation).

DIRECTORS' OR CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2012 were as follows:

| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| Convertible bond reserve | 683,850 | 683,850 |
| Contributed surplus | 419,650 | 419,650 |
| Accumulated losses | (672,051) | (615,306) |
| | 431,449 | 488,194 |

Under the Bermuda Companies Act 1981, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Report of the Directors

SHARE OPTION SCHEMES

The Company adopted an executive share option scheme (the “Scheme”) which became effective on 31 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and was already expired on 30 May 2012. On 28 March 2013, the new share option scheme (the “New Scheme”) was passed by way of an ordinary resolution in a special general meeting. The New Scheme lasts for a period of ten years and will expire on 27 March 2023. Under the Scheme and the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties.

Particulars of the Company’s share option scheme are set out in note 31 to the financial statements.

The total number of shares in respect of which options may be granted under the Scheme and the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. Options granted to substantial shareholders, independent non-executive directors or any of their respective associates in excess of 0.1% of the Company’s share capital and with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company’s shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, and the nominal value of a share of the Company.

Report of the Directors

SHARE OPTION SCHEME (Continued)

For the year ended 31 December 2012, options were granted to certain directors and eligible employees. Details of which are set out in note 31 to the financial statements.

| Category/Name of participant | Date of grant of share options | Number of share options | | | At 31 December 2012 | Exercise period of share options | Exercise price on share options HK\$ per share |
|------------------------------|--------------------------------|-------------------------|-------------------------|------------------------|---------------------|-------------------------------------|--|
| | | At 1 January 2012 | Granted during the year | Lapsed during the year | | | |
| Directors | | | | | | | |
| Gao Jianguo | 6 January 2012 | — | 3,000,000 | — | 3,000,000 | 6 January 2012 — 5 January 2017 | 0.16 |
| Li Baoqi | 27 February 2009 | 1,500,000 | — | — | 1,500,000 | 27 February 2009 — 26 February 2014 | 0.50 |
| | 11 January 2010 | 3,000,000 | — | — | 3,000,000 | 11 January 2010 — 10 January 2015 | 0.68 |
| | 27 January 2011 | 5,000,000 | — | — | 5,000,000 | 27 January 2011 — 26 January 2016 | 0.40 |
| | 6 January 2012 | — | 2,500,000 | — | 2,500,000 | 6 January 2012 — 5 January 2017 | 0.16 |
| | | 9,500,000 | 2,500,000 | — | 12,000,000 | | |
| Cheung Ka Fai | 27 February 2009 | 1,000,000 | — | (1,000,000) | — | 27 February 2009 — 26 February 2014 | 0.50 |
| | 11 January 2010 | 2,600,000 | — | (2,600,000) | — | 11 January 2010 — 10 January 2015 | 0.68 |
| | 27 January 2011 | 4,000,000 | — | (4,000,000) | — | 27 January 2011 — 26 January 2016 | 0.40 |
| | 6 January 2012 | — | 2,000,000 | (2,000,000) | — | 6 January 2012 — 5 January 2017 | 0.16 |
| | | 7,600,000 | 2,000,000 | (9,600,000) | — | | |
| Wu Jixian | 27 February 2009 | 1,800,000 | — | — | 1,800,000 | 27 February 2009 — 26 February 2014 | 0.50 |
| | 11 January 2010 | 3,600,000 | — | — | 3,600,000 | 11 January 2010 — 10 January 2015 | 0.68 |
| | 27 January 2011 | 6,000,000 | — | — | 6,000,000 | 27 January 2011 — 26 January 2016 | 0.40 |
| | | 11,400,000 | — | — | 11,400,000 | | |
| Other employees | | | | | | | |
| | 27 February 2009 | 1,200,000 | — | (1,000,000) | 200,000 | 27 February 2009 — 26 February 2014 | 0.50 |
| | 11 January 2010 | 2,800,000 | — | (2,000,000) | 800,000 | 11 January 2010 — 10 January 2015 | 0.68 |
| | 27 January 2011 | 3,200,000 | — | (2,000,000) | 1,200,000 | 27 January 2011 — 26 January 2016 | 0.40 |
| | 6 January 2012 | — | 2,500,000 | (1,000,000) | 1,500,000 | 6 January 2012 — 5 January 2017 | 0.16 |
| | | 7,200,000 | 2,500,000 | (6,000,000) | 3,700,000 | | |
| | | 35,700,000 | 10,000,000 | (15,600,000) | 30,100,000 | | |

Report of the Directors

DIRECTORS' INTERESTS

As at 31 December 2012, the interests of the Directors and the chief executives and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the Shares

| Name of Director | Notes | Number of shares held | Percentage of the Company's existing issued share capital (%) |
|-------------------|-------|-----------------------|---|
| Gao Jianguo | (a) | 28,062,000 | 0.62 |
| Wu Jixian | (b) | 657,000,000 | 14.53 |
| To Wing Tim Paddy | (c) | 1,160,000 | 0.03 |

Long positions in the underlying Shares

| Name of Director | Notes | Number of underlying shares held | Percentage of issued share capital (%) |
|------------------|-------|----------------------------------|--|
| Wu Jixian | (b) | 1,466,400,000 | 32.42 |
| Li Baoqi | (d) | 12,000,000 | 0.27 |
| Gao Jianguo | (e) | 3,000,000 | 0.07 |

Short positions in the underlying Shares

| Name of Director | Notes | Number of underlying shares held | Percentage of issued share capital (%) |
|------------------|-------|----------------------------------|--|
| Wu Jixian | (b) | 1,455,000,000 | 32.17 |

Report of the Directors

DIRECTORS' INTERESTS *(Continued)*

Notes:

- (a) As at 31 December 2012, Mr. Gao Jianguo, an executive Director, beneficially owned 28,062,000 Shares.
- (b) As at 31 December 2012, Mr. Wu Jixian, a non-executive Director, beneficially owned 657,000,000 Shares, he was also interested in convertible bonds in the aggregate principal amount of HK\$582,000,000, which were convertible into 1,455,000,000 Shares. Mr. Wu has pledged all of his convertible bonds in order to support the convertible bonds issued by the Company in May 2010. Mr. Wu was also entitled to share options to subscribe for a maximum of 11,400,000 Shares upon exercise of the options in full.
- (c) Among the 1,160,000 Shares held by Mr. To Wing Tim, Paddy, an independent non-executive Director, 300,000 Shares were held by Mr. To as beneficial owner and 860,000 Shares held by Ms. Leung Yuet Mei, the spouse of Mr. To. Accordingly, Mr. To was deemed to be interested in the said 1,160,000 Shares under Part XV of the SFO.
- (d) As at 31 December 2012, Mr. Li Baoqi, an executive Director was entitled to share options to subscribe for a maximum of 12,000,000 Shares upon exercise of the options in full.
- (e) As at 31 December 2012, Mr. Gao Jianguo, an executive Director was entitled to share options to subscribe for a maximum of 3,000,000 Shares upon exercise of the options in full.

Save as disclosed above, as at 31 December 2012, none of the Directors nor the chief executives of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the convertible bonds discussed above and the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the interests of the shareholders (excluding directors and the chief executives and their associates of the Company) as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in underlying shares

| Name of shareholder | Nature of Interest | Number of underlying shares held | Approximate percentage of the issued share capital of the Company |
|--|---|----------------------------------|---|
| Passion Giant Investment Limited ("PGI") | Beneficial owner (Note 1) | 2,995,000,000 | 66.22% |
| CCB International Asset Management Limited ("CCBIAML") | Interest in controlled corporation (Note 2) | 2,995,000,000 | 66.22% |
| CCB International (Holdings) Limited ("CCBIHL") | Interest in controlled corporation (Note 2) | 2,995,000,000 | 66.22% |
| CCB Financial Holdings Limited ("CCBFHL") | Interest in controlled corporation (Note 2) | 2,995,000,000 | 66.22% |
| CCB International Group Holdings Limited ("CCBIGHL") | Interest in controlled corporation (Note 2) | 2,995,000,000 | 66.22% |
| China Construction Bank Corporation ("CCBC") | Interest in controlled corporation (Note 2) | 2,995,000,000 | 66.22% |
| Central Huijiu Investments Limited ("CHIL") | Interest in controlled corporation (Note 2) | 2,995,000,000 | 66.22% |

Notes:

- As at 31 December 2012, PGI was interested in convertible bonds in the aggregate principle amount of HK\$154,000,000, which were convertible into 1,540,000,000 shares. To secure these convertible bonds, the substantial shareholder of the Company, Mr. Wu Jixian, has pledged his interests in convertible bonds in the aggregate principle amount of HK\$582,000,000 which were convertible into 1,455,000,000 shares.
- CHIL owns 57.1% in CCBC which in turn owns 100% in CCBIGHL which in turn owns 100% in CCBFHL which in turn owns 100% in CCBIHL which in turn owns 100% in CCBIAML which in turn owns 100% in PGI.

Report of the Directors

Save as disclosed above and so far as is known to the Directors and the chief executive of the Company, as at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no other person as having a notifiable interest or short position in the issued share capital of the Company.

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

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

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 annual report, the Company has complied with the sufficiency of public float requirement under the Listing Rules during the year ended 31 December 2012.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme are set out in note 31 to the 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.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 32 to the financial statements.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 85% of the Group's total turnover and the largest customer accounted for approximately 53% of the Group's total turnover.

The five largest suppliers of the Group accounted for approximately 52% of the Group's total purchases for the year and the largest suppliers accounted for approximately 26% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUMMARY OF FINANCIAL INFORMATION

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 of the Group is set out below:

RESULTS

| | Year ended 31 December 2012 HK\$'000 | 2011 HK\$'000 | Year ended 31 December | | |
|------------------------------|---|------------------|------------------------|------------------|-------------|
| | | 2010 HK\$'000 | 2009 HK\$'000 | 2008 HK\$'000 | |
| CONTINUING OPERATIONS | | | | | |
| TURNOVER | 1,146,763 | 1,847,609 | 1,813,039 | 1,266,801 | 1,371,078 |
| PROFIT/(LOSS) BEFORE TAX | (451,094) | (552,083) | 282,260 | 148,744 | (1,837,800) |
| Income tax | 52,312 | 68,762 | (87,663) | (41,506) | (14,988) |
| PROFIT/(LOSS) FOR THE YEAR | (398,782) | (483,321) | 194,597 | 107,238 | (1,852,788) |
| Attributable to: | | | | | |
| Owners of the parent | (390,303) | (488,020) | 167,859 | 93,736 | (1,858,198) |
| Non-controlling interests | (8,479) | 4,699 | 26,738 | 13,502 | 5,410 |
| | (398,782) | (483,321) | 194,597 | 107,238 | (1,852,788) |

Report of the Directors

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> | As at 31 December | | |
|--|---|-------------------------|-------------------|-----------------|-----------------|
| | | 2010 | 2009 | 2008 | |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| TOTAL ASSETS | 2,405,819 | 3,086,992 | 3,979,267 | 2,741,239 | 2,783,528 |
| TOTAL LIABILITIES | (1,085,089) | (1,383,257) | (1,817,439) | (872,998) | (1,023,285) |
| | 1,320,730 | 1,703,735 | 2,161,828 | 1,868,241 | 1,760,243 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT | 1,175,363 | 1,551,413 | 2,018,870 | 1,795,861 | 1,701,365 |
| NON-CONTROLLING INTERESTS | 145,367 | 152,322 | 142,958 | 72,380 | 58,878 |
| | 1,320,730 | 1,703,735 | 2,161,828 | 1,868,241 | 1,760,243 |

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" in this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

EVENTS AFTER THE REPORTING PERIOD

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

Report of the Directors

AUDITORS

Ernst & Young acted as auditors of the Company for the past three years. A resolution will be submitted to the annual general meeting to re-appoint Ernst & Young as auditors.

ON BEHALF OF THE BOARD

Gao Jianguo

CHAIRMAN

Hong Kong

28 March 2013

Independent Auditors' Report



To the shareholders of Huscoke Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Huscoke Resources Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 141, 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 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditors' Report

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

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements which indicates that the Group incurred a consolidated net loss of HK\$398,782,000 during the year ended 31 December 2012 and, as of that date, the Group's current liabilities exceeded its current assets by HK\$379,735,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As explained in note 2.1 to the consolidated financial statements, these financial statements have been prepared on a going concern basis, the validity of which depends on the Group's ability to source additional debt financing and refinance its existing indebtedness; and to improve its operation to generate adequate cash flows to meet the Group's financial obligations as and when they fall due in the foreseeable future.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 March 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|--|-------|------------------|------------------|
| REVENUE | 5 | 1,146,763 | 1,847,609 |
| Cost of sales | | | |
| — Amortisation of other intangible asset | 15 | (16,814) | (43,512) |
| — Others | | (1,165,148) | (1,626,241) |
| Gross profit/(loss) | | (35,199) | 177,856 |
| Other income | 5 | 62,499 | 27,417 |
| Selling and distribution costs | | (41,517) | (92,972) |
| Administrative expenses | | (79,975) | (87,068) |
| Finance costs | 7 | (63,285) | (74,192) |
| Other operating expenses | | (11,925) | — |
| Loss on early redemption of convertible bonds | 28 | — | (3,353) |
| Gain/(loss) arising from modification of convertible bonds | 28 | 23,226 | (17,272) |
| Fair value change on derivative financial instruments | 28 | (44,300) | (36,751) |
| Impairment loss on goodwill | 14 | — | (10,718) |
| Impairment loss on other intangible asset | 15 | (260,618) | (435,030) |
| Loss before tax | 6 | (451,094) | (552,083) |
| Income tax expense | 10 | 52,312 | 68,762 |
| LOSS FOR THE YEAR | | (398,782) | (483,321) |
| Other comprehensive income/(loss) for the year: | | | |
| Fair value loss of available-for-sale investments | | — | (347) |
| Exchange differences on translation of foreign operation | | 15,237 | 46,654 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (383,545) | (437,014) |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the parent | 11 | (390,303) | (488,020) |
| Non-controlling interests | | (8,479) | 4,699 |
| | | (398,782) | (483,321) |

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

| | Note | 2012 HK\$'000 | 2011 HK\$'000 |
|---|------|-----------------------|------------------|
| Total comprehensive income/(loss) attributable to: | | | |
| Owners of the parent | | (376,590) | (446,378) |
| Non-controlling interests | | (6,955) | 9,364 |
| | | (383,545) | (437,014) |
| LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT | 12 | | |
| Basic | | | |
| — For loss for the year | | (HK6.53 cents) | (HK8.16 cents) |
| Diluted | | | |
| — For loss for the year | | (HK6.53 cents) | (HK8.16 cents) |

Consolidated Statement of Financial Position

31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 1,335,534 | 1,347,888 |
| Goodwill | 14 | 388,544 | 388,544 |
| Other intangible asset | 15 | — | 277,432 |
| Available-for-sale investments | 18 | 4,688 | 4,660 |
| Total non-current assets | | 1,728,766 | 2,018,524 |
| CURRENT ASSETS | | | |
| Inventories | 19 | 112,225 | 179,515 |
| Trade and bills receivables | 20 | 67,348 | 112,323 |
| Prepayments, deposits and other receivables | 21 | 405,197 | 331,678 |
| Amount due from the Non-controlling Shareholder | 22 | 74,351 | 311,621 |
| Tax recoverable | | 7,946 | — |
| Pledged deposits | 23 | — | 121,951 |
| Cash and cash equivalents | 23 | 9,986 | 11,380 |
| Total current assets | | 677,053 | 1,068,468 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 24 | 261,342 | 479,463 |
| Other payables and accruals | 25 | 183,628 | 212,195 |
| Promissory notes | 26 | 231,171 | — |
| Tax payable | | — | 3,861 |
| Interest-bearing bank and other borrowings | 27 | 128,833 | 193,196 |
| Convertible bonds | 28 | 205,789 | 180,556 |
| Derivative financial instruments | 28 | 46,025 | 36,751 |
| Total current liabilities | | 1,056,788 | 1,106,022 |
| NET CURRENT LIABILITIES | | (379,735) | (37,554) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,349,031 | 1,980,970 |

Consolidated Statement of Financial Position

31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT LIABILITIES | | | |
| Amount due to the Non-controlling Shareholder | 22 | 19,201 | 7,201 |
| Deferred tax liabilities | 29 | 9,100 | 53,198 |
| Promissory notes | 26 | — | 216,836 |
| Total non-current liabilities | | 28,301 | 277,235 |
| Net assets | | 1,320,730 | 1,703,735 |
| EQUITY | | | |
| Equity attributable to the owners of parent | | | |
| Issued share capital | 30 | 452,293 | 452,293 |
| Reserves | | 723,070 | 1,099,120 |
| | | 1,175,363 | 1,551,413 |
| Non-controlling interests | | 145,367 | 152,322 |
| Total equity | | 1,320,730 | 1,703,735 |

Director

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| Notes | Attributable to owners of the parent | | | | | | | | | | | | | |
|---|--------------------------------------|---------------------------|---|--|---|----------------------------------|--|--|--------------------------------------|---|-------------------------------------|-------------------|---------------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Contributed surplus HK\$'000 (note i) | Special reserve HK\$'000 (note ii) | Available-for-sale investment revaluation reserve HK\$'000 | Share option reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Capital redemption reserve HK\$'000 | Convertible bond reserve HK\$'000 | Retained profits/(accumulated losses) HK\$'000 | Proposed final dividend HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total HK\$'000 |
| At 1 January 2011 | 434,293 | 144,997 | 335,050 | 18,236 | — | 3,562 | 35,151 | 85 | 949,738 | 76,043 | 21,715 | 2,018,870 | 142,958 | 2,161,828 |
| Profit/(loss) for the year | — | — | — | — | — | — | — | — | — | (488,020) | — | (488,020) | 4,699 | (483,321) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | |
| Fair value loss of an available-for-sale investment, net of tax | — | — | — | — | (347) | — | — | — | — | — | — | (347) | — | (347) |
| Exchange differences on translation of foreign operation | — | — | — | — | — | — | 41,989 | — | — | — | — | 41,989 | 4,665 | 46,654 |
| Total comprehensive income/(loss) for the year | — | — | — | — | (347) | — | 41,989 | — | — | (488,020) | — | (446,378) | 9,364 | (437,014) |
| Final 2010 dividend declared | — | — | — | — | — | — | — | — | — | (900) | (21,715) | (22,615) | — | (22,615) |
| Issue of shares | 30(a) | 18,000 | — | 84,600 | — | — | — | — | (102,600) | — | — | — | — | — |
| Equity-settled share option arrangements | 31 | — | — | — | — | 2,560 | — | — | — | — | — | 2,560 | — | 2,560 |
| Lapsed share options | 31 | — | — | — | — | (230) | — | — | — | 230 | — | — | — | — |
| Arising from modification of convertible bonds | 28 | — | — | — | — | — | — | — | (14,011) | 14,011 | — | — | — | — |
| Arising from early redemption of convertible bonds | 28 | — | — | — | — | — | — | — | (3,777) | 2,753 | — | (1,024) | — | (1,024) |
| At 31 December 2011 | 452,293 | 144,997* | 419,650* | 18,236* | (347)* | 5,892* | 77,140* | 85* | 829,350* | (395,883)* | — | 1,551,413 | 152,322 | 1,703,735 |

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

| Note | Attributable to owners of the parent | | | | | | | | | | | | | |
|--|--------------------------------------|---------------------------|---|--|---|----------------------------------|--|--|--------------------------------------|--------------------------------------|-------------------------------------|-------------------|---------------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Contributed surplus HK\$'000 (note i) | Special reserve HK\$'000 (note ii) | Available-for-sale investment revaluation reserve HK\$'000 | Share option reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Capital redemption reserve HK\$'000 | Convertible bond reserve HK\$'000 | Retained profits/ losses HK\$'000 | Proposed final dividend HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total HK\$'000 |
| At 1 January 2012 | 452,293 | 144,997 | 419,650 | 18,236 | (347) | 5,892 | 77,140 | 85 | 829,350 | (395,883) | — | 1,551,413 | 152,322 | 1,703,735 |
| Loss for the year | — | — | — | — | — | — | — | — | — | (390,303) | — | (390,303) | (8,479) | (398,782) |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operation | — | — | — | — | — | — | 13,713 | — | — | — | — | 13,713 | 1,524 | 15,237 |
| Total comprehensive income/(loss) for the year | — | — | — | — | — | — | 13,713 | — | — | (390,303) | — | (376,590) | (6,955) | (383,545) |
| Equity-settled share option arrangements | 31 | — | — | — | — | 540 | — | — | — | — | — | 540 | — | 540 |
| Lapsed share options | 31 | — | — | — | — | (2,281) | — | — | — | 2,281 | — | — | — | — |
| At 31 December 2012 | 452,293 | 144,997* | 419,650* | 18,236* | (347)* | 4,151* | 90,853* | 85* | 829,350* | (783,905)* | — | 1,175,363 | 145,367 | 1,320,730 |

* These reserve accounts comprise the consolidation reserves of HK\$723,070,000 as at 31 December 2012 (2011: HK\$1,099,120,000) in the consolidated statement of financial position.

Notes:

- (i) The contributed surplus represents the excess of the value of shares converted upon conversion of the 2008 Convertible Bonds (as defined in note 28 to the financial statements) over the nominal amount of the ordinary shares issued pursuant to Section 40(1) of the Bermuda Companies Act 1981.
- (ii) The special reserve represents the difference between the nominal value of the shares of the subsidiaries at the date when the shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|---|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax: | | (451,094) | (552,083) |
| Adjustments for: | | | |
| Equity-settled share option expense | 6 | 540 | 2,560 |
| Finance costs | 7 | 63,285 | 74,192 |
| Interest income | 5 | (7,221) | (2,229) |
| Depreciation | 6 | 102,140 | 92,747 |
| Amortisation of other intangible asset | 15 | 16,814 | 43,512 |
| Impairment loss on goodwill | 14 | — | 10,718 |
| Impairment loss on other intangible asset | 15 | 260,618 | 435,030 |
| Impairment of trade receivables | 6 | 6,089 | 1,335 |
| Impairment of prepayments | 6 | 5,836 | — |
| Loss on early redemption of convertible bonds | 28 | — | 3,353 |
| Loss/(gain) arising from modification of convertible bonds | 28 | (23,226) | 17,272 |
| Fair value change on derivative financial instruments | 28 | 44,300 | 36,751 |
| Write-off of items of property, plant and equipment | 13 | 5,701 | — |
| | | 23,782 | 163,158 |
| Decrease/(increase) in inventories | | 69,326 | (1,507) |
| Decrease in trade and bills receivables | | 40,161 | 174,461 |
| Decrease in prepayments, deposits and other receivables | | 105,578 | 365,615 |
| Decrease in an amount due from the Non-controlling Shareholder | | 240,806 | 51,726 |
| Decrease in trade and bills payables | | (223,561) | (84,340) |
| Decrease in other payables and accruals | | (30,136) | (9,605) |
| Increase/(decrease) in an amount due to the Non-controlling Shareholder | | 12,000 | (6,626) |
| Cash generated from operations | | 237,956 | 652,882 |
| Income taxes paid | | (3,549) | (94,501) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 234,407 | 558,381 |

Consolidated Statement of Cash Flows

Year ended 31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|--|-------|------------------|------------------|
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 234,407 | 558,381 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | 13 | (81,460) | (105,578) |
| Increase in advance to a related company | | (12,333) | — |
| Increase in advance to the Non-controlling Shareholder | | (168,844) | — |
| Purchases of available-for-sale investments | | — | (2,410) |
| Decrease/(increase) in pledged deposits | | 123,335 | (96,386) |
| Proceeds from disposal of equity investment at fair value through profit or loss | | — | 3,351 |
| Interest received | | 7,221 | 2,229 |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | (132,081) | (198,794) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank and other borrowings | | 349,337 | 159,327 |
| Repayment of bank and other borrowings | | (415,083) | (199,150) |
| Repayment of promissory notes | | — | (231,012) |
| Early redemption of convertible bonds | | — | (45,873) |
| Interest paid | | (37,978) | (26,327) |
| Dividend paid | | — | (22,460) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | (103,724) | (365,495) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (1,398) | (5,908) |
| Cash and cash equivalents at the beginning of the year | | 11,380 | 16,977 |
| Effect of foreign currency rate changes, net | | 4 | 311 |
| Cash and cash equivalents at the end of the year | | 9,986 | 11,380 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 23 | 9,986 | 11,380 |

Statement of Financial Position

31 December 2012

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 |
|----------------------------------|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 17 | 1,509,392 | 1,474,393 |
| Total non-current assets | | 1,509,392 | 1,474,393 |
| CURRENT ASSETS | | | |
| Bank balances | 23 | 264 | 244 |
| Total current assets | | 264 | 244 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 25 | 3,092 | 3,094 |
| Convertible bonds | 28 | 205,789 | 180,556 |
| Derivative financial instruments | 28 | 46,025 | 36,751 |
| Total current liabilities | | 254,906 | 220,401 |
| NET CURRENT LIABILITIES | | (254,642) | (220,157) |
| Net assets | | 1,254,750 | 1,254,236 |
| EQUITY | | | |
| Issued share capital | 30 | 452,293 | 452,293 |
| Reserves | 32(b) | 802,457 | 801,943 |
| Total equity | | 1,254,750 | 1,254,236 |

Director

Director

Notes to Financial Statements

31 December 2012

1. CORPORATE INFORMATION

Huscoke Resources Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business is Room 4205, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

During the year, the Company and its subsidiaries (collectively, the “Group”) were involved in the following activities:

- coal-related ancillary business;
- coke production business; and
- coke trading business.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

2.1 BASIS OF PRESENTATION

The Group recorded a consolidated net loss of HK\$398,782,000 (2011: HK\$483,321,000) for the year ended 31 December 2012. This included (i) an impairment loss on other intangible asset amounting to HK\$260,618,000 (2011: HK\$435,030,000); (ii) gain arising from modification of convertible bonds amounting to HK\$23,226,000 (2011: loss of HK\$17,272,000); (iii) fair value loss on derivative financial instruments of HK\$44,300,000 (2011: HK\$36,751,000); and (iv) other operating expenses of HK\$11,925,000 (2011: Nil). These items had not affected the Group’s operating cash flows.

The Group also recorded net current liabilities of HK\$379,735,000 as at 31 December 2012 (2011: HK\$37,554,000) which included convertible bonds of HK\$205,789,000, interest-bearing bank and other borrowings of HK\$128,833,000 and promissory notes of HK\$231,171,000. The deterioration in the net current liability position is due to the Group’s borrowings, convertible bonds and promissory notes being due within the next 12 months from 31 December 2012.

Notes to Financial Statements

31 December 2012

2.1 BASIS OF PRESENTATION *(Continued)*

In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group is taking the follow measures subsequent to the year end:

- (a) the Group has entered into a bank facility letter for additional banking facilities totaling RMB200 million;
- (b) the Group has signed a letter of intent with an independent third party in respect of a two-year unsecured credit facility for the sole purpose of redemption of the convertible bonds upon maturity on 23 May 2013;
- (c) the Group has entered into an agreement with the holder of the promissory note and its affiliates pursuant to which the promissory note payable by the Group will be satisfied with trade and other receivables due from, and prepayments paid to, the noteholder and its affiliates upon maturity of the promissory note on 9 June 2013;
- (d) the settlement terms of other borrowing of HK\$15,594,000 which was repayable on demand as at 31 December 2012 had been rescheduled, and is now not repayable before 31 May 2014; and
- (e) management has been implementing various strategies to improve the Group's operating performance.

After taking into account the above measures, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the consolidated financial statements.

Notes to Financial Statements

31 December 2012

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) 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 for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if 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.

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.

Notes to Financial Statements

31 December 2012

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

Other than as further explained below regarding the impact of amendments to HKFRS 7, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement. Apart from the additional disclosures for transactions involving the transfer of financial assets in order to provide greater transparency of risk exposures when financial assets are transferred, the adoption of the amendments did not have any impact on the financial position or performance of the Group.

Notes to Financial Statements

31 December 2012

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|--|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ² |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ² |
| HKFRS 9 | <i>Financial Instruments</i> ⁴ |
| HKFRS 10 | <i>Consolidated Financial Statements</i> ² |
| HKFRS 11 | <i>Joint Arrangements</i> ² |
| HKFRS 12 | <i>Disclosure of Interests in Other Entities</i> ² |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | <i>Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance</i> ² |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | <i>Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities</i> ³ |
| HKFRS 13 | <i>Fair Value Measurement</i> ² |
| HKAS 1 Amendments | <i>Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹ |
| HKAS 19 (2011) | <i>Employee Benefits</i> ² |
| HKAS 27 (2011) | <i>Separate Financial Statements</i> ² |
| HKAS 28 (2011) | <i>Investments in Associates and Joint Ventures</i> ² |
| HKAS 32 Amendments | <i>Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³ |
| HK(IFRIC)-Int 20 | <i>Stripping Costs in the Production Phase of a Surface Mine</i> ² |
| <i>Annual Improvements to 2009-2011 Cycle</i> | 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 the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operation and financial position.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss 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.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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 profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where 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 estimated useful lives of property, plant and equipment are as follows:

| | |
|-------------------------------------|--|
| Leasehold land under finance leases | Over the lease terms |
| Buildings | Over the shorter of the term of the lease of the land and 50 years |
| Furnaces and infrastructure | 25 years |
| Plant and machinery | 8 years |
| Computer equipment | 5 years |
| Furniture and fixtures | 5 years |
| Motor vehicles | 5 years |

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

An item of property, plant and equipment, 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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial investments, 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.

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.

Subsequent measurement

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

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating 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.

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 profit or loss 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 profit or loss in other expense. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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 profit or loss.

Derecognition of financial assets

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

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

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

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the 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.

Notes to Financial Statements

31 December 2012

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

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

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 profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

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

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 and loans and borrowings, 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 off directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, an amount due to the Non-controlling Shareholder, promissory notes, convertible bonds, derivative financial instruments, and interest-bearing bank and other borrowings.

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 include 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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Financial liabilities at fair value through profit or loss *(Continued)*

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 in HKAS 39 are satisfied.

Loan 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 profit or loss 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 profit or loss.

Convertible bonds

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

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative components of the convertible bonds are measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability components. This amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion of the transaction costs relating to the derivative component is recognised immediately in profit or loss.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

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.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss.

Leases

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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

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) the sale of refined coal, coke and by-products, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) the sale of electricity and heat, when the electricity and heat are consumed by the customers; 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.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, 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.

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes

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 profit or loss 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.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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.

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 profit or loss.

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).

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss 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 profit or loss.

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 statement 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.

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 jurisdictions in which the Group operates.

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

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Notes to Financial Statements

31 December 2012

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants 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.

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to Financial Statements

31 December 2012

2.5 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.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Notes to Financial Statements

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements

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

Impairment of non-financial assets

In determining whether an asset is impaired or the events 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.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

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.

Notes to Financial Statements

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of property, plant and equipment, goodwill and other intangible asset

The Group's determination on whether property, plant and equipment, goodwill and other intangible asset are impaired requires an estimation of the value in use of the cash-generating units to which these assets are 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 suitable discount rates in order to calculate the present value of those cash flows. Any change in the business environment may lead to the change of expected future cash flows. The carrying amounts of property, plant and equipment, and goodwill as at 31 December 2012 were HK\$1,335,534,000 (2011: HK\$1,347,888,000) and HK\$388,544,000 (2011: HK\$388,544,000), respectively. The carrying amount of other intangible asset being an export distribution right, acquired on acquisition of businesses as at 31 December 2012 was Nil (2011: HK\$277,432,000). Further details are set out in notes 13 to 15 to the financial statements.

Other intangible asset

In prior year, the estimated useful life of other intangible asset was based on the management's best estimate of the expected life of the right, according to the management understanding of the trading of coke business. In addition, the actual amount of export sales by the sole supplier to the Group was subject to the quantity of export quota granted by the Ministry of Commerce of the People's Republic of China to the sole supplier semi-annually. Full impairment provision of HK\$260,618,000 was made against the carrying value of the other intangible asset as at 31 December 2012 as a result of the abortion of the export quota. Further details are set out in note 15.

Depreciation

The Group depreciates its property, plant and equipment over the estimated useful life, commencing from the date the property, plant and equipment are ready for their intended use. The estimated useful life reflects the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The depreciation will be changed when the useful life is expected to be different from the estimate and would affect profit or loss for the period in which such change of estimate takes place.

Notes to Financial Statements

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of receivables, prepayments, and deposits

The Group assesses at the end of each reporting period whether there is any objective evidence that a receivable/prepayment/deposits is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts of trade and bills receivables, trade receivables due from the Non-controlling Shareholder, prepayments, deposits and other receivables as at 31 December 2012 were HK\$67,348,000 (2011: HK\$112,323,000), HK\$74,351,000 (2011: HK\$311,621,000), and HK\$405,197,000 (2011: HK\$331,678,000), respectively.

Fair value of share options and derivative components of convertible bonds

Where the fair values of financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimation includes considerations of inputs such as adjustment factors to stock price, credit risk, dividend yield and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the derivative components of the convertible bonds and the share options were HK\$46,025,000 (2011: HK\$36,751,000) and HK\$540,000 (2011: HK\$2,560,000), respectively. Further details are included in notes 28 and 31 to the financial statements.

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:

- (a) the coke trading segment — purchases and sale of coke;
- (b) the coal-related ancillary segment — washing of raw coal into refined coal for sale and for further processing, and the sale of electricity and heat which is generated as the by-products during washing of raw coal; and
- (c) the coke production segment — processing of refined coal into coke for sale, and the sale of coke by-products that are generated during coke production.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, sundry income, corporate administrative expenses, gain/loss on early redemption and on modification of convertible bonds, fair value change on derivative financial instruments, unallocated finance costs, income tax expense/credit are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, unallocated available-for-sale investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude the amount due to the Non-controlling Shareholder, interest-bearing bank and other borrowings, promissory notes, convertible bonds, derivative financial instruments, deferred tax liabilities for corporate use and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted at cost plus a certain percentage of mark-up.

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results

Year ended 31 December 2012

| | Coke trading HK\$'000 | Coal-related ancillary HK\$'000 | Coke production HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---|--------------------------|------------------------------------|-----------------------------|-------------------------|-------------------|
| Segment revenue | | | | | |
| — external sales | 14,699 | 285,349 | 846,715 | — | 1,146,763 |
| — intersegment sales | — | 441,966 | — | (441,966) | — |
| Other income | — | 55,278 | — | — | 55,278 |
| Total | 14,699 | 782,593 | 846,715 | (441,966) | 1,202,041 |
| Segment results | (279,995) | 67,038 | (73,116) | (13,259) | (299,332) |
| Interest income | | | | | 7,221 |
| Corporate administrative expenses | | | | | (79,975) |
| Gain arising from modification of convertible bonds | | | | | 23,226 |
| Fair value change on derivative financial instruments | | | | | (44,300) |
| Unallocated finance costs | | | | | (57,934) |
| Loss before tax | | | | | (451,094) |
| Income tax credit | | | | | 52,312 |
| Loss for the year | | | | | (398,782) |

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Year ended 31 December 2011

| | Coke trading HK\$'000 | Coal- related ancillary HK\$'000 | Coke production HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|--------------------------------|-------------------------|-------------------|
| Segment revenue | | | | | |
| — external sales | 176,298 | 497,027 | 1,174,284 | — | 1,847,609 |
| — intersegment sales | — | 725,532 | — | (725,532) | — |
| Other income | 5,855 | 12,182 | — | — | 18,037 |
| Total | 182,153 | 1,234,741 | 1,174,284 | (725,532) | 1,865,646 |
| Segment results | (469,606) | 79,121 | 55,216 | (14,509) | (349,778) |
| Interest income | | | | | 2,229 |
| Sundry income | | | | | 7,151 |
| Corporate administrative expenses | | | | | (87,068) |
| Loss on early redemption of convertible bonds | | | | | (3,353) |
| Loss arising from modification of convertible bonds | | | | | (17,272) |
| Fair value change on derivative financial instruments | | | | | (36,751) |
| Unallocated finance costs | | | | | (67,241) |
| Loss before tax | | | | | (552,083) |
| Income tax credit | | | | | 68,762 |
| Loss for the year | | | | | (483,321) |

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities

31 December 2012

| | Coke trading HK\$'000 | Coal-related ancillary HK\$'000 | Coke production HK\$'000 | Total HK\$'000 |
|---------------------------------------|--------------------------|------------------------------------|-----------------------------|-------------------|
| SEGMENT ASSETS | | | | |
| Segment assets | 124,591 | 1,467,430 | 607,489 | 2,199,510 |
| Corporate and unallocated assets | | | | 206,309 |
| Consolidated assets | | | | 2,405,819 |
| SEGMENT LIABILITIES | | | | |
| Segment liabilities | 73,999 | 264,079 | 102,713 | 440,791 |
| Corporate and unallocated liabilities | | | | 644,298 |
| Consolidated liabilities | | | | 1,085,089 |

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

31 December 2011

| | Coke trading <i>HK\$'000</i> | Coal-related ancillary <i>HK\$'000</i> | Coke production <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------------------|------------------------------------|--|---------------------------------------|--------------------------|
| SEGMENT ASSETS | | | | |
| Segment assets | 436,353 | 1,638,994 | 667,953 | 2,743,300 |
| Corporate and unallocated assets | | | | 343,692 |
| Consolidated assets | | | | 3,086,992 |
| SEGMENT LIABILITIES | | | | |
| Segment liabilities | 127,257 | 467,518 | 144,193 | 738,968 |
| Corporate and unallocated liabilities | | | | 644,289 |
| Consolidated liabilities | | | | 1,383,257 |

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2012

| | Coke trading HK\$'000 | Coal-related ancillary HK\$'000 | Coke production HK\$'000 | Total HK\$'000 |
|---|--------------------------|------------------------------------|-----------------------------|-------------------|
| OTHER SEGMENT INFORMATION | | | | |
| Additions of property, plant and equipment | — | 74,938 | 1,727 | 76,665 |
| Unallocated | | | | 4,795 |
| | | | | 81,460 |
| Impairment of other intangible asset | 260,618 | — | — | 260,618 |
| Amortisation of other intangible asset | 16,814 | — | — | 16,814 |
| Depreciation | — | 53,261 | 40,306 | 93,567 |
| Unallocated | | | | 8,573 |
| | | | | 102,140 |
| Unallocated interest on bank and other borrowings | — | — | — | 15,794 |
| Unallocated income tax credit | | | | (52,312) |
| Impairment of trade receivables | — | (3,145) | (2,944) | (6,089) |
| Impairment of prepayments | — | (5,836) | — | (5,836) |
| Write-off of unallocated items of property, plant and equipment | — | — | — | 5,701 |

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011

| | Coke trading HK\$'000 | Coal-related ancillary HK\$'000 | Coke production HK\$'000 | Total HK\$'000 |
|--|--------------------------|------------------------------------|-----------------------------|-------------------|
| OTHER SEGMENT INFORMATION | | | | |
| Additions of property, plant and equipment | — | 97,738 | 4,974 | 102,712 |
| Unallocated | | | | 2,866 |
| | | | | 105,578 |
| Impairment of goodwill | 10,718 | — | — | 10,718 |
| Impairment of other intangible asset | 435,030 | — | — | 435,030 |
| Amortisation of other intangible asset | 43,512 | — | — | 43,512 |
| Depreciation | — | 45,273 | 38,989 | 84,262 |
| Unallocated | | | | 8,485 |
| | | | | 92,747 |
| Interest on bank and other borrowings | 3,555 | — | — | 3,555 |
| Unallocated | | | | 5,515 |
| | | | | 9,070 |
| Unallocated income tax credit | | | | (68,762) |
| Impairment of trade receivables | — | 1,335 | — | 1,335 |

Notes to Financial Statements

31 December 2012

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

The Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, Mainland China, which is the Group's principal place of business and operations during the years ended 31 December 2012 and 2011. Therefore, no analysis by geographical region is presented.

The revenue information is based on the locations of the customers.

(b) Non-current assets

| | 2012 HK\$'000 | 2011 HK\$'000 |
|----------------|------------------|------------------|
| Hong Kong | 108,577 | 389,013 |
| Mainland China | 1,615,501 | 1,624,851 |
| | 1,724,078 | 2,013,864 |

The non-current assets information above is based on the locations of the assets and excludes financial instruments.

Information about major customers

Revenue of approximately HK\$606,823,000 (2011: HK\$789,859,000) was derived from sales in the coke production segment to a single customer, which is an independent third party of the Group.

Revenue of approximately HK\$232,991,000 (2011: HK\$475,759,000) was derived from sales in the coal-related ancillary segment and the coke production segment to a single customer, which is the Non-controlling Shareholder.

Notes to Financial Statements

31 December 2012

5. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

| | Note | Group | |
|--|------|------------------|------------------|
| | | 2012 HK\$'000 | 2011 HK\$'000 |
| Revenue | | | |
| Sale of refined coal | | 184,966 | 424,597 |
| Sale of electricity and heat | | 100,383 | 72,430 |
| Sale of coke and by-products | | 861,414 | 1,350,582 |
| | | 1,146,763 | 1,847,609 |
| Other income | | | |
| Interest income | | 7,221 | 2,229 |
| Government subsidies | | 55,278 | 12,182 |
| Reimbursement from the Non-controlling Shareholder | (i) | — | 5,855 |
| Sundry income | | — | 7,151 |
| | | 62,499 | 27,417 |

Note:

- (i) As further detailed in note 15 to the financial statements, the Group has an exclusive international right to handle the export business of coke for 金岩電力煤化工有限公司, the non-controlling shareholder holding a 9% interest in 山西金岩和嘉能源有限公司 (the "Non-controlling Shareholder"). The Non-controlling Shareholder agreed to reimburse the Group's interest expense on the export loan which the Group obtained to finance the prepayments made for purchases for the Group's export trade. The prepayments and the export loan were fully settled in 2011.

Notes to Financial Statements

31 December 2012

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

| | <i>Notes</i> | 2012 HK\$'000 | 2011 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Cost of inventories sold | | 1,165,148 | 1,626,241 |
| Auditors' remuneration | | 2,130 | 2,000 |
| Depreciation | 13 | 102,140 | 92,747 |
| Net foreign exchange losses | | — | 538 |
| Operating lease payments in respect of leasehold interest in land and rented properties | | 1,885 | 1,368 |
| Employee benefit expense (including directors' remuneration) | | | |
| Wages and salaries | | 60,995 | 62,635 |
| Equity-settled share option expense | 31 | 540 | 2,560 |
| Pension scheme contribution [#] | | 11,906 | 11,599 |
| | | 73,441 | 76,794 |
| Impairment of trade receivables* | 20 | 6,089 | 1,335 |
| Impairment of prepayments* | 21 | 5,836 | — |
| Write off of items of property, plant and equipment | | 5,701 | — |

* The impairment of trade receivables and prepayments are included in "Other operating expenses" in the profit or loss.

As at 31 December 2012 and 2011, the Group had no forfeited contributions from the pension schemes available to reduce its contributions to the pension schemes in future years.

Notes to Financial Statements

31 December 2012

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|---|---------------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| Interest on bank and other borrowings repayable within five years | 15,794 | 9,070 |
| Interest on promissory notes | 11,874 | 22,135 |
| Interest on convertible bonds | 30,266 | 39,590 |
| Interest on discounted bills | 5,351 | 3,397 |
| | 63,285 | 74,192 |

8. DIRECTORS' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|--------------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| Fees | 2,390 | 2,730 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 2,088 | 3,020 |
| Equity-settled share based expense | 405 | 1,920 |
| Pension scheme contributions | 13 | 21 |
| | 2,506 | 4,961 |
| | 4,896 | 7,691 |

During the years ended 31 December 2012 and 2011, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant, and the amounts included in the financial statements for the years ended 31 December 2012 and 2011 have been included in the above directors' remuneration disclosures.

Notes to Financial Statements

31 December 2012

8. DIRECTORS' EMOLUMENTS (Continued)

2012

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Equity- settled share based expense HK\$'000 | Pension scheme contributions HK\$'000 | Total HK\$'000 |
|--|------------------|--|--|--|-------------------|
| Executive directors: | | | | | |
| Li Baoqi (chief executive officer) | 845 | 893 | 135 | 5 | 1,878 |
| Cheung Ka Fai (resigned on 31 July 2012) | 220 | 610 | 108 | 8 | 946 |
| Gao Jianguo | 845 | 585 | 162 | — | 1,592 |
| | 1,910 | 2,088 | 405 | 13 | 4,416 |
| Non-executive director: | | | | | |
| Wu Jixian | 120 | — | — | — | 120 |
| Independent non-executive directors: | | | | | |
| Lam Hoy Lee, Laurie | 120 | — | — | — | 120 |
| To Wing Tim, Paddy | 120 | — | — | — | 120 |
| Lau Ka Ho | 120 | — | — | — | 120 |
| | 360 | — | — | — | 360 |
| | 2,390 | 2,088 | 405 | 13 | 4,896 |

Notes to Financial Statements

31 December 2012

8. DIRECTORS' EMOLUMENTS (Continued)

2011

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Equity- settled share based expense HK\$'000 | Pension scheme contributions HK\$'000 | Total HK\$'000 |
|--|------------------|--|--|--|-------------------|
| Executive directors: | | | | | |
| Li Baoqi (chief executive officer) | 806 | 514 | 640 | — | 1,960 |
| Wu Jixian (resigned on 19 September 2011) | 645 | 1,441 | 768 | 9 | 2,863 |
| Cheung Ka Fai | 324 | 912 | 512 | 12 | 1,760 |
| Gao Jianguo (appointed on 19 September 2011) | 221 | 153 | — | — | 374 |
| | 1,996 | 3,020 | 1,920 | 21 | 6,957 |
| Non-executive director: | | | | | |
| Wu Jixian (appointed on 19 September 2011) | 374 | — | — | — | 374 |
| Independent non-executive directors: | | | | | |
| Lam Hoy Lee, Laurie | 120 | — | — | — | 120 |
| Wan Hon Keung (resigned on 21 April 2011) | 37 | — | — | — | 37 |
| To Wing Tim, Paddy | 120 | — | — | — | 120 |
| Lau Ka Ho (appointed on 21 April 2011) | 83 | — | — | — | 83 |
| | 360 | — | — | — | 360 |
| | 2,730 | 3,020 | 1,920 | 21 | 7,691 |

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

During the years ended 31 December 2012 and 2011, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

31 December 2012

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2011: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2011: two) highest paid employees, who are not a director of the Company, are as follows:

| | Group | |
|---|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Salaries, allowances and benefits in kind | 966 | 1,630 |
| Equity-settled share based expense | 70 | 486 |
| Pension scheme contribution | 21 | 12 |
| | 1,057 | 2,128 |

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

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2012 | 2011 |
| Nil to HK\$1,000,000 | 2 | — |
| HK\$1,000,001 to HK\$1,500,000 | — | 2 |
| | 2 | 2 |

During the years ended 31 December 2012 and 2011, share options were granted to two non-director highest paid employees in respect of their service to the Group, further details of which are included in the disclosure in note 31 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined at the date of grant, and the amounts included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2012

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong for both years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Group: | | |
| Current — Hong Kong | | |
| Overprovision in prior years | — | (4,463) |
| Current — Elsewhere | | |
| Charge for the year | — | 16,505 |
| Under/(over) provision in prior years | (8,214) | 94 |
| Deferred (note 29) | (44,098) | (80,898) |
| <hr/> | | |
| Total tax credit for the year | (52,312) | (68,762) |

A reconciliation of the tax applicable to loss before tax at 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 tax rates) to the effective tax rates, are as follows:

Group — 2012

| | Hong Kong | | Mainland China | | Total | |
|--|------------------|---------------|------------------|---------------|------------------|---------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Loss before tax | (350,955) | | (100,139) | | (451,094) | |
| Tax at the statutory tax rate | (57,908) | (16.5) | (25,035) | (25.0) | (82,943) | (18.4) |
| Expenses not deductible for tax | 11,577 | 3.3 | 11,759 | 11.7 | 23,336 | 5.2 |
| Overprovision in prior years | — | — | (8,214) | (8.2) | (8,214) | (1.8) |
| Tax losses not recognised | 2,233 | 0.6 | 13,276 | 13.3 | 15,509 | 3.4 |
| Tax credit at the Group's effective rate | (44,098) | (12.6) | (8,214) | (8.2) | (52,312) | (11.6) |

Notes to Financial Statements

31 December 2012

10. INCOME TAX EXPENSE (Continued)

Group — 2011

| | Hong Kong | | Mainland China | | Total | |
|---|-----------|--------|----------------|------|-----------|--------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit/(loss) before tax | (604,368) | | 52,285 | | (552,083) | |
| Tax at the statutory tax rate | (99,719) | (16.5) | 13,071 | 25.0 | (86,648) | (15.7) |
| Income not subject to tax | (1,250) | (0.2) | — | — | (1,250) | (0.2) |
| Expenses not deductible for tax | 17,742 | 2.9 | 3,434 | 6.6 | 21,176 | 3.8 |
| Under/(over) provision in prior years | (4,463) | (0.7) | 94 | 0.2 | (4,369) | (0.8) |
| Tax losses not recognised | 2,329 | 0.4 | — | — | 2,329 | 0.4 |
| Tax charge/(credit) at the Group's effective rate | (85,361) | (14.1) | 16,599 | 31.8 | (68,762) | (12.5) |

11. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK\$59,026,000 (2011: loss of HK\$63,903,000) which has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to owners of the parent of HK\$390,303,000 (2011: HK\$488,020,000), and the weighted average number of ordinary shares of 5,977,926,000 (2011: 5,977,926,000) in issue during the year, as adjusted to reflect the full conversion of the 2008 Convertible Bonds (as defined in note 28) for ordinary shares of the Company during the year.

As disclosed in note 28, the 2008 Convertible Bonds shall be converted automatically into new shares of the Company at the date of maturity. Shares that are issuable solely after the passage of time are not contingently issuable shares and are included in the calculation of basic and diluted loss per share amounts.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

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31 December 2012

13. PROPERTY, PLANT AND EQUIPMENT

Group

| | Land and buildings | Furnaces and infrastructure | Plant and machinery | Computer equipment | Furniture and fixtures | Motor vehicles | Construction in progress | Total |
|--------------------------|-----------------------|--------------------------------|------------------------|-----------------------|------------------------------|-------------------|-----------------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| COST | | | | | | | | |
| At 1 January 2011 | 359,094 | 446,781 | 358,513 | 69,559 | 3,404 | 33,691 | 143,937 | 1,414,979 |
| Additions | — | 1,533 | 4,577 | 816 | — | 1,575 | 97,077 | 105,578 |
| Exchange realignment | 8,880 | 16,364 | 13,127 | 2,555 | — | 1,210 | 6,451 | 48,587 |
| At 31 December 2011 | 367,974 | 464,678 | 376,217 | 72,930 | 3,404 | 36,476 | 247,465 | 1,569,144 |
| Additions | — | — | 1,541 | 1,992 | — | 8,504 | 69,423 | 81,460 |
| Write-off | (6,064) | — | — | — | — | — | — | (6,064) |
| Transfer | 127,116 | 35,497 | 157,082 | — | — | — | (319,695) | — |
| Exchange realignment | 2,855 | 5,273 | 4,255 | 827 | — | 401 | 2,807 | 16,418 |
| At 31 December 2012 | 491,881 | 505,448 | 539,095 | 75,749 | 3,404 | 45,381 | — | 1,660,958 |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| At 1 January 2011 | 20,101 | 8,591 | 62,693 | 18,953 | 770 | 12,065 | — | 123,173 |
| Provided for the year | 9,885 | 17,595 | 44,968 | 12,947 | 625 | 6,727 | — | 92,747 |
| Exchange realignment | 641 | 528 | 2,825 | 854 | — | 488 | — | 5,336 |
| At 31 December 2011 | 30,627 | 26,714 | 110,486 | 32,754 | 1,395 | 19,280 | — | 221,256 |
| Provided for the year | 11,855 | 18,409 | 49,782 | 13,517 | 628 | 7,949 | — | 102,140 |
| Write-off | (363) | — | — | — | — | — | — | (363) |
| Exchange realignment | 270 | 303 | 1,240 | 372 | — | 206 | — | 2,391 |
| At 31 December 2012 | 42,389 | 45,426 | 161,508 | 46,643 | 2,023 | 27,435 | — | 325,424 |
| NET CARRYING AMOUNT | | | | | | | | |
| At 31 December 2012 | 449,492 | 460,022 | 377,587 | 29,106 | 1,381 | 17,946 | — | 1,335,534 |
| At 31 December 2011 | 337,347 | 437,964 | 265,731 | 40,176 | 2,009 | 17,196 | 247,465 | 1,347,888 |

Notes to Financial Statements

31 December 2012

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying value of the land and buildings shown above comprises:

| | Group | |
|---|-----------------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| Properties situated on leasehold interest land: | | |
| In Hong Kong under long term lease | 107,195 | 109,561 |
| Outside Hong Kong under medium term lease | 342,297 | 227,786 |
| | 449,492 | 337,347 |

At 31 December 2012, certain of the Group's land and buildings with a net carrying amount of approximately HK\$107,195,000 (2011: HK\$109,561,000) were pledged to secure general banking facilities granted to the Group (note 27).

14. GOODWILL

| | Group |
|---|--------------|
| | HK\$'000 |
| Cost: | |
| At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012 | 2,269,645 |
| Accumulated impairment: | |
| At 1 January 2011 | (1,870,383) |
| Impairment during the year | (10,718) |
| At 31 December 2011, 1 January 2012 and 31 December 2012 | (1,881,101) |
| Net carrying amount: | |
| At 31 December 2012 | 388,544 |
| At 31 December 2011 | 388,544 |

Goodwill arising from the acquisition of Pride Eagle Investment Limited and its subsidiaries (the "Pride Eagle Group") and Joy Wisdom International Limited and its subsidiaries (the "Joy Wisdom Group") in 2008 amounted to HK\$1,085,213,000 and HK\$1,184,432,000, respectively. It represented the excess of the cost of acquisition over the Group's interest in the fair value of the respective identifiable assets and liabilities of the Pride Eagle Group and the Joy Wisdom Group.

Notes to Financial Statements

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15. OTHER INTANGIBLE ASSET

| | Group <i>HK\$'000</i> |
|--|---------------------------------|
| Cost: | |
| At 1 January 2011, at 31 December 2011, 1 January 2012 and 31 December 2012 | 870,192 |
| Accumulated amortisation and impairment: | |
| At 1 January 2011 | (114,218) |
| Amortisation provided during the year | (43,512) |
| Impairment during the year | (435,030) |
| At 31 December 2011 and 1 January 2012 | (592,760) |
| Amortisation provided during the year | (16,814) |
| Impairment during the year | (260,618) |
| At 31 December 2012 | (870,192) |
| Net carrying amount: | |
| At 31 December 2012 | — |
| At 31 December 2011 | 277,432 |

The other intangible asset relates to an export agency agreement entered into between a PRC coke supplier, which is the Non-controlling Shareholder, and Huscoke International Group Limited ("HIG"), a wholly-owned subsidiary of the Group incorporated in Hong Kong. The agreement entitled the Group to have an exclusive right to handle the export business of coke for the supplier. The agreement was effective for three years from the agreement date of 1 January 2007, and would continue to be effective if there is no change related to the contractual parties. The directors of the Company were of the opinion that the coke supplier would be able to obtain the export quota from the relevant PRC government authority for a period of not less than 20 years and has the ability to utilise the export quota, and that the Group would continue to maintain a relationship with the coke supplier such that HIG would continue to handle the export business of coke from the coke supplier for the 20-year duration. On 1 July 2010, a modified export agency agreement was entered into between the coke supplier and HIG, in which the coke supplier agreed to continue to grant HIG the exclusive right to handle the export business of coke from the supplier, and where the export quantity falls short of the export quota granted by the relevant PRC government authority, the difference would be supplied to HIG or its nominee for domestic sales in Mainland China. The modified export agency agreement is effective for three years from 1 July 2010, and will continue to be effective if there is no change to the contractual parties.

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15. OTHER INTANGIBLE ASSET (Continued)

Taking into consideration market and competitive information, the Group had, in prior years, estimated that the useful life of the intangible asset to be 20 years, being the period over which the Group is expected to generate net cash flows. The discounted cash flow method, with cash flow projections covering 20 years, being the estimated period of the export agency agreement with the sole supplier, and a discount rate of 13.4% were used to estimate the fair value of the intangible asset at date of acquisition. The intangible asset was amortised on the straight-line basis over the estimated useful life of 20 years.

Effective from 1 January 2013, the exports of coke are no longer regulated under the quota system by the relevant PRC government authority. Instead, exports of coke are conducted through a regime of export licence which is not restricted to designated entities. In the opinion of the directors, the value to the exclusive right to handle export of coke stemmed from the relationship with the coke supplier has diminished as result of the deregulation. Following this regulatory change, the directors considered that the recoverable amount of the other intangible asset was minimal as at 31 December 2012. An impairment provision of HK\$260,618,000 (2011: HK\$435,030,000) for the other intangible asset was recognised in profit or loss for the year ended 31 December 2012.

16. IMPAIRMENT TEST ON PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND OTHER INTANGIBLE ASSET

For the purpose of impairment testing, property, plant and equipment, goodwill and other intangible asset have been allocated to three cash-generating units, being the coke production segment, the coal-related ancillary segment and the coke trading segment. The carrying amounts of property, plant and equipment, goodwill and other intangible asset as at 31 December 2012 and 2011 allocated to these units are as follows:

| | Property, plant and equipment | | Goodwill | | Other intangible asset | | Total | |
|--------------------------------|-------------------------------|------------------|------------------|------------------|------------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Coke trading segment | — | — | — | — | — | 277,432 | — | 277,432 |
| Coal-related ancillary segment | 594,352 | 562,410 | 388,544 | 388,544 | — | — | 982,896 | 950,954 |
| Coke production segment | 553,229 | 578,119 | — | — | — | — | 553,229 | 578,119 |
| Unallocated | 187,953 | 207,359 | — | — | — | — | 187,953 | 207,359 |
| | 1,335,534 | 1,347,888 | 388,544 | 388,544 | — | 277,432 | 1,724,078 | 2,013,864 |

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16. IMPAIRMENT TEST ON PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND OTHER INTANGIBLE ASSET *(Continued)*

Coke trading cash-generating unit

As detailed in note 15, in view of the regulatory change to the exports of coke, the other intangible asset was considered fully impaired at 31 December 2012 and a provision of HK\$260,618,000 was recognised in the profit or loss.

In 2011, the recoverable amount of the coke trading cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a 16-year duration which were approved by senior management. The financial budgets and growth rates were estimated with reference to the development curve of the industry. The rate used to discount the forecasted cash flows was 15.4%.

Key assumptions were used in the value in use calculation of the coke trading cash-generating unit for the year ended 31 December 2011. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins was the average gross margins achieved in the year immediately before the budget year.

Discount rate – The discount rate used was before tax and reflected specific risks relating to the coke trading cash-generating unit.

The carrying value of the coke trading segment using the value in use calculation was approximately HK\$277,432,000 as at 31 December 2011. This resulted in impairment of goodwill and other intangible asset of approximately HK\$10,718,000 and HK\$435,030,000, respectively, which were charged to the profit or loss for the year ended 31 December 2011.

The decrease in the recoverable amount of the coke trading cash-generating unit in 2011 was mainly due to the lack of world demand which continued to place pressure on the pricing of export coke and the narrowed gross profit margin on domestic sales due to slower demand and higher costs of raw materials.

Coal-related ancillary cash-generating unit

The recoverable amount of the coal-related ancillary cash-generating unit as at 31 December 2012 was determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period approved by senior management, and cash flows beyond the 5-year period were extrapolated using a growth rate of 2.5% (2011: 5.0%) which was the same as the long term average growth rate of the coal-related ancillary industry. The discount rate applied to the cash flow projections was 15% (2011: 15%).

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16. IMPAIRMENT TEST ON PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND OTHER INTANGIBLE ASSET *(Continued)*

Coal-related ancillary cash-generating unit *(Continued)*

Key assumptions were used in the value in use calculation of the coal-related ancillary cash-generating unit as at 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Budgeted manufacturing capacity utilisation rate – The rate is determined on basis of the average actual utilisation rate achieved in prior years, increased gradually for expected revival and improvement in market.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the coal-related ancillary cash-generating unit.

Raw materials purchase costs, production costs and products selling prices inflation – The basis used to determine the value assigned to costs and prices inflation is the forecasted inflation indices of the budget year.

Coke production cash-generating unit

The recoverable amount of the coke production cash-generating unit as at 31 December 2012 was determined based on a value in use calculation using cash flow projections based on financial budgets covering a 12.5-year period which is assessed and approved by senior management with reference to physical condition of property, plant and equipment at current status and expected obsolescence and retirement based on prior year experience, and the discount rate applied to the cash flow projections was 15%.

Key assumptions were used in the value in use calculation of the coke production cash-generating units as at 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Budgeted manufacturing capacity utilisation rate — The rate is determined on basis of the average actual utilisation rate achieved in prior years, increased gradually for expected revival and improvement in market.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the coke production asset cash-generating unit.

Raw materials purchase costs, production costs and products selling prices inflation — The basis used to determine the value assigned to costs and prices inflation is the forecasted inflation indices of the budget year.

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17. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|-------------------------------|-------------------------|-------------------------|
| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> |
| Unlisted shares, at cost | — | — |
| Amounts due from subsidiaries | 3,748,663 | 3,748,663 |
| Amounts due to subsidiaries | (140,543) | (116,542) |
| Impairment [#] | (2,098,728) | (2,157,728) |
| | 1,509,392 | 1,474,393 |

[#] The impairment as at 31 December 2012 includes impairment provision of HK\$2,098,728,000 (2011: HK\$2,157,728,000) for amounts due from subsidiaries. The provision was determined on the basis of the amounts recoverable from the subsidiaries with reference to the estimated fair value of the underlying assets held by subsidiaries.

Movements in the provision for impairment of amounts due from subsidiaries are as follows:

| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| At 1 January | 2,157,728 | 1,557,207 |
| Impairment losses recognised/(reversed) | (59,000) | 600,521 |
| At 31 December | 2,098,728 | 2,157,728 |

The amounts due from/to subsidiaries included in investments in subsidiaries above are unsecured, non-interest-bearing and have no fixed terms of repayment.

The carrying amounts of the amounts due from/to subsidiaries approximate their fair values.

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17. INVESTMENTS IN SUBSIDIARIES (Continued)

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

| Name of company | Place of incorporation/ registration and place of operations | Nominal value of issued share/ registered capital and class of share held | Percentage of equity attributable to the Company | | Principal activities |
|---|--|---|--|----------|---|
| | | | Direct | Indirect | |
| Rich Key Enterprises Limited* | British Virgin Islands/ Hong Kong | US\$1 Ordinary | 100% | — | Investment holding |
| Pride Eagle Investments Limited* | British Virgin Islands/ Hong Kong | US\$1 Ordinary | — | 100% | Investment holding |
| Huscoke International Group Limited | Hong Kong/Hong Kong | HK\$10,000 Ordinary | — | 100% | Trading of coke |
| Ocean Signal Limited | Hong Kong/Hong Kong | HK\$10,000 Ordinary | — | 100% | Property holding |
| Joy Wisdom International Limited* | British Virgin Islands/ Hong Kong | US\$1 Ordinary | — | 100% | Investment holding |
| Huscoke International Investment Limited | Hong Kong/Hong Kong | HK\$1 Ordinary | — | 100% | Investment holding |
| 山西金岩和嘉能源有限公司 ("金岩和嘉") (note i)* | People's Republic of China/Mainland China | HK\$715,000,000 [#] | — | 90% | Coal-related ancillary business; coke production and trading of coke |

* The statutory financial statements of these subsidiaries are not audited by Ernst & Young Hong Kong or another member firm of Ernst & Young global network.

[#] The amount stated represent the paid-up capital.

Note:

(i) 金岩和嘉 is a Sino-foreign equity joint venture company established in the People's Republic of China.

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18. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|-------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Club debentures, at fair value | 2,221 | 2,221 |
| Unlisted equity investment, at cost | 2,467 | 2,439 |
| | 4,688 | 4,660 |

During the year, no fair value change on available-for-sale investments was recognised in other comprehensive income (2011: loss of HK\$347,000).

At 31 December 2012, an unlisted equity investment with a carrying amount of HK\$2,467,000 (2011: HK\$2,439,000) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

19. INVENTORIES

| | Group | |
|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Raw materials | 68,486 | 121,435 |
| Work in progress | 25,642 | 27,475 |
| Finished goods | 18,097 | 30,605 |
| | 112,225 | 179,515 |

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20. TRADE AND BILLS RECEIVABLES

| | Note | Group | |
|---|------|------------------|------------------|
| | | 2012 HK\$'000 | 2011 HK\$'000 |
| Trade receivables [#] | | 146,689 | 425,296 |
| Bills receivables | | 2,466 | — |
| Impairment | | (7,456) | (1,352) |
| | | 141,699 | 423,944 |
| Less: Trade receivables due from the Non-controlling Shareholder | 22 | (74,351) | (311,621) |
| | | 67,348 | 112,323 |

[#] Included in the Group's trade receivables are amounts due from a subsidiary and associates of the Non-controlling Shareholder of HK\$6,020,000 (2011: Nil) and HK\$13,497,000 (2011: HK\$750,000), respectively. The balances are repayable on similar credit terms to those offered to the major customers of the Group.

The Group's trading terms with its customers are mainly on credit. The credit period is generally 120 days. Each customer has a maximum credit limit. Advances are required for certain customers. The directors consider that these arrangements enable the Group to limit its credit risk exposure. As at 31 December 2012, approximately 52% (2011: 74%) and 10% (2011: 6%) of the Group's trade receivables were due from two customers, and there was a significant concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Trade receivables due from the Non-controlling Shareholder are on similar credit terms to those offered to the major customers of the Group.

The carrying amounts of trade and bills receivables approximate their fair values.

Notes to Financial Statements

31 December 2012

20. TRADE AND BILLS RECEIVABLES (Continued)

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

| | Group | |
|-----------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Within 3 months | 115,441 | 387,557 |
| 3 to 4 months | 5,186 | 7,106 |
| Over 4 months | 21,072 | 29,281 |
| | 141,699 | 423,944 |

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

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| At 1 January | 1,352 | — |
| Impairment losses recognised (note 6) | 6,089 | 1,335 |
| Exchange realignment | 15 | 17 |
| | 7,456 | 1,352 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$7,456,000 (2011: HK\$1,352,000) with a carrying amount before provision of HK\$7,456,000 (2011: HK\$3,520,000).

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.

Notes to Financial Statements

31 December 2012

20. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

| | Group | |
|-------------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Neither past due nor impaired | 120,627 | 394,663 |
| Less than 6 months past due | 14,880 | 18,981 |
| More than 6 months past due | 6,192 | 10,300 |
| | 141,699 | 423,944 |

The Group's trade and bills receivables at the end of the reporting period that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, the directors 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 the balances are still considered fully recoverable.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | | Group | |
|--|-------|-----------------|-----------------|
| | Notes | 2012 | 2011 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Other receivables from the Non-controlling Shareholder (note 22) | (i) | 168,844 | — |
| Prepayments to the Non-controlling Shareholder (note 22) | (ii) | 124,591 | 158,921 |
| Prepayments and other receivables due from a related company | (iii) | 34,421 | 70,624 |
| Subtotal | | 327,856 | 229,545 |
| Prepayments, deposits and other receivables to others | (iv) | 83,177 | 102,133 |
| Impairment | | (5,836) | — |
| | | 405,197 | 331,678 |

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes:

- (i) Balance represented an advance to the Non-controlling Shareholder, which is unsecured, non-interest-bearing and repayable on demand.
- (ii) Balance represented prepayments for purchase of coke for coke trading business (note 15). The balance is unsecured, non-interest-bearing and is to be settled with future purchases.
- (iii) Balance included (i) a prepayment of HK\$22,088,000 (2011: HK\$70,624,000) due from a related company, which is an associate of the Non-controlling Shareholder, for purchases of raw materials for the coal-related ancillary and the coke production businesses; and (ii) an advance to the related company of HK\$12,333,000 (2011: Nil) which is unsecured, non-interest-bearing and repayable on demand.
- (iv) Balance included prepayments to suppliers of raw materials for the coal-related ancillary and the coke production businesses which are unsecured, non-interest-bearing and are to be settled with future purchases.

The carrying amounts of deposits and other receivables approximate their fair values.

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

| | Group | |
|---------------------------------------|-----------------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| At 1 January | — | — |
| Impairment losses recognised (note 6) | 5,836 | — |
| At 31 December | 5,836 | — |

Included in the above provision for prepayments is a provision for individually impaired prepayments of HK\$5,836,000 (2011: Nil) with a carrying amount before provision of HK\$6,082,000 (2011: Nil). The individually impaired prepayments relate to the portions of prepayments that were not expected to be recovered.

The financial assets included in the above balances that were neither past due nor impaired relate to receivables for which there was no recent history of default.

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22. AMOUNT DUE FROM/(TO) THE NON-CONTROLLING SHAREHOLDER

| | | Group | |
|---|--------------|--------------------------------|-------------------------|
| | <i>Notes</i> | 2012 HK\$'000 | 2011 <i>HK\$'000</i> |
| Current | | | |
| Trade receivables due from the Non-controlling Shareholder (<i>note 20</i>) | <i>(i)</i> | 74,351 | 311,621 |
| Other receivables from the Non-controlling Shareholder (<i>note 21</i>) | <i>(ii)</i> | 168,844 | — |
| Prepayments to the Non-controlling Shareholder (<i>note 21</i>) | <i>(iii)</i> | 124,591 | 158,921 |
| Promissory notes (<i>note 26</i>) | <i>(iv)</i> | (231,171) | — |
| Non-current | | | |
| Amount due to the Non-controlling Shareholder | <i>(v)</i> | (19,201) | (7,201) |
| Promissory notes (<i>note 26</i>) | <i>(iv)</i> | — | (216,836) |

Notes:

- (i) The balance is trade in nature, and is unsecured, non-interest-bearing and repayable within the credit term of 120 days (2011: 120 days), which is similar to those granted to major trading customers of the Group. As at 31 December 2012 and 2011, the balances were aged within the credit period.
- (ii) The balance is an advance to the Non-controlling Shareholder, which is unsecured, non-interest-bearing and repayable on demand.
- (iii) The balance is trade in nature, and is unsecured, non-interest-bearing and is to be settled with future purchases.
- (iv) The promissory notes were issued by the Group to the Non-controlling Shareholder in connection to the acquisition of the coke production assets in 2010, further details of the terms are disclosed in note 26 to the financial statements. They are due on 9 June 2013 and thus all reclassified to current liability.
- (v) The balance represented an advance from the Non-controlling Shareholder. The balance is unsecured, non-interest-bearing and not repayable within twelve months from the end of the reporting period.

The carrying amounts of the above balances approximate their fair values.

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23. CASH AND CASH EQUIVALENTS, AND PLEDGED DEPOSITS

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 |
| Cash and bank balances | 9,986 | 11,380 | 264 | 244 |
| Time deposits | — | 121,951 | — | — |
| | 9,986 | 133,331 | 264 | 244 |
| Less: Pledged time deposits for bills payables | — | (121,951) | — | — |
| Cash and cash equivalents | 9,986 | 11,380 | 264 | 244 |

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK\$1,685,000 (2011: HK\$122,408,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. 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.

24. TRADE AND BILLS PAYABLES

| | Group | |
|-----------------------------|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Trade payables [#] | 261,342 | 357,512 |
| Bills payables | — | 121,951 |
| | 261,342 | 479,463 |

[#] Included in the trade payables is a trade payable of HK\$11,932,000 (2011: HK\$24,078,000) due to an associate of the Non-controlling Shareholder that is repayable within 120 days, represents similar credit terms offered by major creditors.

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24. TRADE AND BILLS PAYABLES (Continued)

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

| | Group | |
|-----------------|-------------------------|-------------------------|
| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> |
| Within 3 months | 99,496 | 283,009 |
| 3 to 4 months | 11,813 | 17,515 |
| Over 4 months | 150,033 | 178,939 |
| | 261,342 | 479,463 |

The trade payables are non-interest-bearing and are normally settled on 120-day terms.

The carrying amounts of trade and bills payables approximate their fair values.

25. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2011 <i>HK\$'000</i> |
| Other payables and accrued charges | 94,502 | 136,973 | 3,092 | 3,094 |
| Advance received from customers | 89,126 | 75,222 | — | — |
| | 183,628 | 212,195 | 3,092 | 3,094 |

Other payables are non-interest-bearing and have an average credit term of 120 days.

The carrying amounts of other payables and accruals approximate their fair values.

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26. PROMISSORY NOTES

| | Group | |
|---------------------|-----------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| Carrying value | 231,171 | 216,836 |
| Current portion | (231,171) | — |
| Non-current portion | — | 216,836 |

On 10 June 2010, the Company issued two unsecured, non-interest-bearing promissory notes with the principal amount of RMB191,740,000 (equivalent to HK\$219,000,000 at 10 June 2010) each to the Non-controlling Shareholder as part of the consideration for the acquisition of the coke production assets. The effective interest rate of the promissory notes is 5.4% per annum. One of the promissory notes matured on 9 December 2011 and was fully repaid. The remaining promissory note matures on 9 June 2013. The carrying value of the promissory note approximates its fair value.

Subsequent to the year end, the Group has entered into an agreement with the holder of a promissory note and its affiliates pursuant to which the promissory note payable by the Group will be satisfied with the trade and other receivables due from, and prepayments paid to, the noteholder and its affiliates upon maturity of the promissory note on 9 June 2013.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

| | 31 December 2012 | | | 31 December 2011 | | |
|--------------------------------------|-------------------------------------|-----------|----------------|-------------------------------------|-----------|----------|
| | Effective contractual interest rate | Maturity | HK\$'000 | Effective contractual interest rate | Maturity | HK\$'000 |
| Mortgage loan | 1 month HIBOR + 2.45% | On demand | 76,239 | 1 month HIBOR + 1.25% | On demand | 32,400 |
| Other bank loan | 7.57% | On demand | 37,000 | 6.71% | On demand | 121,951 |
| Other borrowing | 10% | On demand | 15,594 | 10% | On demand | 38,845 |
| | | | 128,833 | | | 193,196 |
| Secured | | | 76,239 | | | 32,400 |
| Unsecured | | | 52,594 | | | 160,796 |
| | | | 128,833 | | | 193,196 |
| Carrying amounts repayable on demand | | | 128,833 | | | 193,196 |

Notes:

- Except for the other bank loan of HK\$37,000,000 (2011: HK\$121,951,000) which is denominated in Renminbi, all bank and other borrowings are denominated in Hong Kong dollars.
- The mortgage loan is secured by a mortgage over the Group's land and buildings situated in Hong Kong, which had a carrying value at 31 December 2012 of HK\$107,195,000 (2011: HK\$109,561,000).
- As further explained in note 40 to the financial statements, due to the adoption of HK Interpretation 5, the Group's bank loans in the amount of HK\$71,863,000 (2011: HK\$27,000,000) containing a repayment on demand clause has been classified as a current liability. For the purpose of the above analysis, the mortgage and other bank loans are included within current interest-bearing bank borrowings and analysed into bank loans repayable on demand.
- Based on the maturity terms of the mortgage and other bank loans, the amounts repayable in respect of the mortgage and other bank loans are HK\$41,376,000 (2011: HK\$127,351,000) payable within one year; HK\$4,498,000 (2011: HK\$5,400,000) payable in the second year; HK\$14,233,000 (2011: HK\$16,200,000) payable in the third to fifth years, inclusive and HK\$53,132,000 (2011: HK\$5,400,000) payable beyond five years.
- The other borrowing has no fixed term of repayment and was classified as "on demand" at 31 December 2012. Subsequent to year end, on 15 March 2013, the lender of the other borrowing had agreed in writing not to demand repayment of the other borrowing before 31 May 2014.

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28. CONVERTIBLE BONDS

2008 Convertible Bonds

The Company issued two tranches of zero coupon convertible bonds, each with a principal amount of HK\$1,100,000,000, to Mr. Wu Jixian on 16 May 2008 (the "Tranche 1 Bonds") and 31 October 2008 (the "Tranche 2 Bonds") (collectively, the "2008 Convertible Bonds"), with maturity date on the fifth anniversary of the respective dates of issue, as the partial settlement for the acquisitions of the Pride Eagle Group and the Joy Wisdom Group, respectively.

The 2008 Convertible Bonds should accrue no interest and are freely transferable, provided that where they are intended to be transferred to a connected person (as defined in the Listing Rules) of the Group (other than the associates of the bondholder), such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange, if any.

The bondholder may, at any time during the respective bond issue periods, convert in whole or in part the 2008 Convertible Bonds into ordinary shares of the Company at the conversion price of HK\$0.4 per share subject to adjustments. Any portion of the bonds which remain outstanding on the respective maturity dates shall be mandatorily converted into new shares of the Company under the same terms mentioned above. The total number of ordinary shares of HK\$0.1 each to be converted from the 2008 Convertible Bonds at a conversion price of HK\$0.4 per share is 5,500,000,000.

The 2008 Convertible Bonds are considered equity instruments and are included in equity under convertible bond reserve.

The fair value of the 2008 Convertible Bonds was determined by reference to the quoted market prices of the ordinary shares of the Company, being HK\$0.66 per share and HK\$0.57 per share, at the respective issuance dates of the Tranche 1 Bonds and the Tranche 2 Bonds.

No conversion of 2008 Convertible Bonds was made during the year ended 31 December 2012. During the year ended 31 December 2011, the 2008 Convertible Bonds with an aggregate carrying amount of HK\$102,600,000 and a principal amount of HK\$72,000,000 were converted into 180,000,000 shares of the Company. Accordingly, HK\$18,000,000 and HK\$84,600,000 were transferred from convertible bond reserve to share capital and the contributed surplus accounts, respectively.

If the remaining 2008 Convertible Bonds with an aggregate carrying amount of HK\$829,350,000 and a principal amount of HK\$582,000,000 as at 31 December 2012 and 2011 were fully converted, it would result in the issue of 1,455,000,000 additional ordinary shares of the Company, and HK\$145,500,000 would be transferred to the share capital account and the remaining HK\$683,850,000 would be transferred to the contributed surplus account from convertible bond reserve.

Notes to Financial Statements

31 December 2012

28. CONVERTIBLE BONDS (Continued)

2010 Convertible Bonds

| | Group and Company | |
|----------------------------------|-------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Convertible bonds | | |
| PGI CB (as defined below) | 205,789 | 180,556 |
| CSOP CB (as defined below) | — | — |
| | 205,789 | 180,556 |
| Derivative financial instruments | 46,025 | 36,751 |

On 24 May 2010, the Company issued HK\$192,500,000, 8% convertible bonds (the "2010 Convertible Bonds") to two independent third parties, Passion Giant Investment Limited ("PGI") in the amount of HK\$154,000,000 (the "PGI CB") and CSOP Asset Management Limited ("CSOP") in the amount of HK\$38,500,000 (the "CSOP CB"). The 2010 Convertible Bonds mature on 23 May 2013. Interest is paid semi-annually in arrears in May and November of each year.

The bondholders could, at any time before the maturity date, convert in whole or in part the 2010 Convertible Bonds into ordinary shares of the Company at the conversion price of HK\$0.55 per share, subject to adjustments. Upon full conversion of the 2010 Convertible Bonds, it would, under the present capital structure of the Company, result in the issue of 350,000,000 new shares of the Company.

Unless previously redeemed or converted or purchased and cancelled as provided in the respective subscription agreements, the 2010 Convertible Bonds will be redeemed on the maturity date at the principal amount plus accrued and unpaid interest, together with an additional amount as premium such that interest plus the said additional amount will be equivalent to a rate of return of 18% per annum throughout the bond issue period.

The bondholders are granted a partial redemption option in which the holders are entitled to request the Company to redeem one-third of the 2010 Convertible Bonds at a redemption price of 92% of the face value of the bonds during the bond issue period. A default redemption option is also granted in which the bondholders are entitled to request the Company to redeem the 2010 Convertible Bonds in full at a redemption price at 25% over the face value of the bonds in the events of default. These options constitute derivative financial liabilities of which the fair values were immaterial at the issue date.

Notes to Financial Statements

31 December 2012

28. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds *(Continued)*

At issue dates of 24 May 2010, the 2010 Convertible Bonds are secured by the following:

- (i) charge over all shares of Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, wholly-owned subsidiaries of the Group; and
- (ii) a pledge by Mr. Wu Jixian, a non-executive director and a substantial shareholder of the Company, of the Tranche 2 Bonds with a principal amount of HK\$577,500,000 and carrying amount of HK\$822,938,000.

Further details of the 2010 Convertible Bonds are set out in the Company's announcement dated 6 May 2010.

On 25 May 2011, the 30 trading day average closing price of the Company's shares was HK\$0.384, which was less than 70% of the original conversion price of the 2010 Convertible Bonds of HK\$0.55. This constituted an event of default. This allowed the bondholders to request the Company to redeem the 2010 Convertible Bonds in full at a redeemed price of 25% over the face value of the bonds.

2011 CSOP redemption

On 7 September 2011, the Company and CSOP came to an agreement to change the terms of the 2010 Convertible Bonds held by CSOP which allowed the Company to early redeem the CSOP CB at HK\$45,873,000. As at 7 September 2011, the carrying value of liability component of the CSOP CB was HK\$41,496,000. The difference between the redemption value of the CSOP CB of HK\$44,849,000 and its carrying value in respect of liability component at the early redemption date of 7 September 2011 was a loss of HK\$3,353,000, and was charged to the profit or loss for the year. The corresponding equity component in the amount of HK\$2,753,000 was transferred from the convertible bond reserve to retained earnings.

Notes to Financial Statements

31 December 2012

28. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds *(Continued)*

2011 PGI Amendments

On 29 June 2011, PGI gave confirmation and entered into a supplemental deed (the "First PGI Supplemental Deed") that it would refrain from exercising the early redemption right and sanctioned the modification of the PGI CB it held, pursuant to which, and among other matters, the conversion price was adjusted from HK\$0.55 to HK\$0.30 per share. The other principle terms including the coupon rate, the default redemption premium and the redemption premium, the partial redemption option and the maturity date remained the same. Such modification of terms constituted a material modification and was accounted for as an extinguishment of the original PGI CB and an issue of a new PGI CB. As at 29 June 2011, the carrying values of liability component and equity component of the PGI CB were HK\$152,011,000 and HK\$14,011,000, respectively. The Company reassessed the fair value of the new PGI CB in light of the modification of terms set out above, whereby the fair value of the liability component was determined as HK\$169,283,000, and fair values of the derivative financial liabilities relating to the partial redemption option and the default redemption option, together with the equity component, were immaterial. The net effect of the above is a recognition of loss of HK\$17,272,000 charged to the profit or loss and a transfer of HK\$14,011,000 from the convertible bond reserve to retained earnings.

2012 PGI Amendments

On 28 September 2011, the 30 trading day average closing price of the Company's shares was HK\$0.209, which was less than 70% of the adjusted conversion price of the PGI CB of HK\$0.30. This constituted an event of default. After negotiation, the Company and PGI entered into an amendment agreement and supplemental deed (the "Second PGI Amendment Agreement and Second PGI Supplemental Deed") on 30 December 2011, pursuant to which, PGI gave confirmation that it would refrain from exercising the early redemption right and sanctioned the modifications of certain terms of the PGI CB, including but not limited to:

- i) the conversion price of HK\$0.30 per share was to be adjusted to HK\$0.22 per share;
- ii) the removal of the event of default that if, at any time, the average 30 consecutive trading days' closing price per share is less than 70% of the conversion price;

Notes to Financial Statements

31 December 2012

28. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds *(Continued)*

2012 PGI Amendments *(Continued)*

- iii) the reset of the conversion price, "where the average closing price per share for the period of 30 consecutive trading days ending on (and inclusive of) 31 December 2012 (the "Relevant Average Price") is less than the then prevailing conversion price (i.e. HK\$0.22 per share or such other amount as may be adjusted in accordance with the other conditions set out therein), with effect from 31 December 2012, the conversion price shall be adjusted to such amount as equal to the Relevant Average Price subject to a floor of nominal value of the Company's share. For avoidance of doubt, where the Relevant Average Price is equal to or more than the then prevailing conversion price, the above adjustment shall not be made; and
- iv) an additional pledge of Tranche 2 Bonds having an aggregate outstanding principal amount of HK\$120,000,000 and a carrying amount of HK\$171,000,000 as at 31 December 2012 from Mr. Wu Jixian, a non-executive director and a substantial shareholder of the Company.

The redemption premium, the default redemption premium and maturity date remained the same.

Further details of the Second PGI Amendment Agreement and the Second PGI Supplemental Deed are set out in the Company's circular dated 2 February 2012.

The Second PGI Amendment Agreement and the Second PGI Supplemental Deed were conditional as at 31 December 2011, subject to the fulfilment of certain conditions including the approval of shareholders at a special general meeting. Accordingly, the carrying value of the PGI CB of HK\$180,556,000 was classified as current liability at 31 December 2011. The approval of shareholders was obtained, and fulfilment of other conditions was achieved, on 28 February 2012.

The modification under the Second PGI Amendment Agreement and the Second PGI Supplemental Deed constituted a significant modification and was accounted for as an extinguishment of the original PGI CB and an issue of a new PGI CB. At 28 February 2012, the carrying value of liability component and derivative component of the PGI CB were HK\$186,253,000 and HK\$41,434,000, respectively. The Company reassessed at 28 February 2012 the fair values of the new PGI CB in light of the modification of terms set out above, whereby the fair value of the liability component was determined at HK\$198,053,000 and the fair value of the derivative financial liabilities relating to equity conversion option, partial redemption option and the default redemption option were determined at HK\$6,408,000. These options are interdependent as only one of these options can be exercised. Therefore, they are not able to be accounted for separately and a single compound derivative financial instrument was recognised. The net effect of the above is a recognition of a gain of HK\$23,226,000 credited to the profit or loss.

Notes to Financial Statements

31 December 2012

28. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds *(Continued)*

2012 PGI Amendments *(Continued)*

At 31 December 2012, the PGI CB is secured by the following:

- (i) charge over all shares of Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, wholly-owned subsidiaries of the Group; and
- (ii) a pledge by Mr. Wu Jixian, a non-executive director and a substantial shareholder of the Company, of the Tranche 2 Bonds having an aggregate outstanding principal amount of HK\$582,000,000 (2011: HK\$462,000,000) and carrying amount of HK\$829,350,000 (2011: HK\$658,350,000).

The Relevant Average Price was HK\$0.076, and was less than the nominal value of the Company's share of HK\$0.1 per share. The conversion price of the new PGI CB was reset to HK\$0.1 with effect from close of business on 31 December 2012 pursuant to the Second PGI Amendment Agreement and Second PGI Supplemental Deed.

On 31 December 2012, the Group had not complied with certain financial covenants stipulated in the terms of the 2012 PGI CB, in particular, the net assets of the Company based on the audited consolidated financial statements for the most recent financial year or the audited consolidated management account of the most recent quarter, i.e., 31 December 2012, were less than HK\$1.5 billion. This constitutes an event of default under the PGI CB. Up to the date of approval of these financial statements, the Company has not yet received any notice from the bondholder to request repayment of the principal amount and interest accrued of the PGI CB. Further details are set out in the Company's announcement dated 28 March 2013.

The fair value of the liability component of the PGI CB at 31 December 2012 was HK\$207,096,000 (2011: HK\$177,810,000). The fair value was calculated by discounting the future cash flows at the prevailing market interest rate at the end of respective reporting periods.

The derivative financial instruments of HK\$46,025,000 at 31 December 2012 (2011: HK\$36,751,000) represented the fair value of the options on the PGI CB at the end of the respective reporting period.

Notes to Financial Statements

31 December 2012

28. CONVERTIBLE BONDS (Continued)

2010 Convertible Bonds (Continued)

An analysis of the movements of the liability component, the equity component and the derivative component of 2010 Convertible Bonds during the years ended 31 December 2012 and 2011 is as follows:

| | Liability component <i>HK\$'000</i> | Equity component <i>HK\$'000</i> | Derivative component <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|--|--------------------------|
| CSOP CB | | | | |
| At 1 January 2011 | 37,601 | 3,777 | — | 41,378 |
| Interest expenses | 5,435 | — | — | 5,435 |
| Interest paid | (1,540) | — | — | (1,540) |
| Early redemption during the year arising from 2011 CSOP redemption | (41,496) | (3,777) | — | (45,273) |
| At 31 December 2011 | — | — | — | — |
| PGI CB | | | | |
| At 1 January 2011 | 141,449 | 14,011 | — | 155,460 |
| Interest expenses | 34,155 | — | — | 34,155 |
| Interest paid | (12,320) | — | — | (12,320) |
| Extinguishment during the year arising from 2011 PGI Amendments | (152,011) | (14,011) | — | (166,022) |
| Issue of the new PGI CB arising from 2011 PGI Amendments | 169,283 | — | — | 169,283 |
| Fair value change | — | — | 36,751 | 36,751 |
| At 31 December 2011 and 1 January 2012 | 180,556 | — | 36,751 | 217,307 |
| Interest expenses | 30,266 | — | — | 30,266 |
| Interest paid | (16,833) | — | — | (16,833) |
| Extinguishment during the year arising from 2012 PGI Amendments | (186,253) | — | (41,434) | (227,687) |
| Issue of the new PGI CB arising from 2012 PGI Amendments | 198,053 | — | 6,408 | 204,461 |
| Fair value change | — | — | 44,300 | 44,300 |
| As 31 December 2012 | 205,789 | — | 46,025 | 251,814 |

Notes to Financial Statements

31 December 2012

29. DEFERRED TAX

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

Deferred tax liabilities

Group

| | 2012 | | |
|---|---|--|--------------------------|
| | Accelerated tax depreciation <i>HK\$'000</i> | Fair value adjustments arising from acquisition of subsidiaries <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| At 1 January 2012 | 9,188 | 44,010 | 53,198 |
| Deferred tax credited to profit or loss during the year (<i>note 10</i>) | (88) | (44,010) | (44,098) |
| Gross deferred tax liabilities 31 December 2012 | 9,100 | — | 9,100 |

Group

| | 2011 | | |
|---|---|--|--------------------------|
| | Accelerated tax depreciation <i>HK\$'000</i> | Fair value adjustments arising from acquisition of subsidiaries <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| At 1 January 2011 | 9,359 | 124,737 | 134,096 |
| Deferred tax credited to profit or loss during the year (<i>note 10</i>) | (171) | (80,727) | (80,898) |
| Gross deferred tax liabilities at 31 December 2011 | 9,188 | 44,010 | 53,198 |

Notes to Financial Statements

31 December 2012

29. DEFERRED TAX (Continued)

The Group has tax losses arising in Hong Kong and PRC of HK\$58,587,000 and HK\$53,105,000 (2011: HK\$45,050,000 and Nil) that are available indefinitely and within 5 years, respectively, for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above amounts as it is not considered probable that taxable profits will be available against which the above amounts can be utilised.

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 Mainland China. The requirement is 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China 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 subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in a subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$416,020,000 at 31 December 2012 (2011: HK\$506,144,000).

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

30. SHARE CAPITAL

Shares

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Authorised: 20,000,000,000 (2011: 20,000,000,000) ordinary shares of HK\$0.1 each | 2,000,000 | 2,000,000 |
| Issued and fully paid: 4,522,926,292 (2011: 4,522,926,292) ordinary shares of HK\$0.1 each | 452,293 | 452,293 |

Notes to Financial Statements

31 December 2012

30. SHARE CAPITAL (Continued)

A summary of movements during the year in the Company's issued share capital is as follows:

| | <i>Note</i> | Number of share in issue | Issued capital <i>HK\$'000</i> |
|---|-------------|-------------------------------------|--|
| At 1 January 2011 | | 4,342,926,292 | 434,293 |
| Issue of shares upon conversion of the 2008 Convertible Bonds | (a) | 180,000,000 | 18,000 |
| <hr/> | | | |
| At 31 December 2011, 1 January 2012 and 31 December 2012 | | 4,522,926,292 | 452,293 |

Note:

- (a) During the year ended 31 December 2011, 180,000,000 ordinary shares of the Company of HK\$0.1 each were issued upon partial conversion of the 2008 Convertible Bonds with an aggregate principal amount of HK\$72,000,000 at a conversion price of HK\$0.4 each (note 28).

Share option

Details of the Company's share option schemes and the share options issued under the schemes are included in note 31 to the financial statements.

31. SHARE OPTION SCHEMES

2002 Scheme

The Company operates a share option scheme (the "2002 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2002 Scheme include the Company's directors and employees of the Group. The 2002 Scheme became effective on 31 May 2002 and expired on 31 May 2012.

The maximum number of unexercised share options permitted to be granted under the 2002 Scheme was an amount equivalent, upon their exercise, to 10% of the total number of shares in issue as at the date of approval of the 2002 Scheme. The maximum number of shares issuable under share options granted to each eligible participant in the 2002 Scheme within any 12-month period was limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit was subject to shareholders' approval in a general meeting of the Company.

Notes to Financial Statements

31 December 2012

31. SHARE OPTION SCHEMES (Continued)

2002 Scheme (Continued)

Under the 2002 Scheme, options were granted to eligible participants and there were outstanding (but not yet exercised) options to subscribe for a total of 30,100,000 shares as at 31 December 2012, representing approximately 0.66% of the issued share capital of the Company as at that date. Following the expiry of the 2002 Scheme in May 2012, no further options may be granted under the 2002 Scheme. The outstanding options granted under the 2002 Scheme shall continue to be valid and subject to the provisions of the 2002 Scheme and Chapter 17 of the Listing Rules.

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 associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. Options may be exercised at any time from the date of grant of the share option to the end of the exercise period.

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

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

The following share options were outstanding under the 2002 Scheme during the year:

| | 2012 | | 2011 | |
|-------------------------------------|--|------------------------|--|------------------------|
| | Weighted average exercise price HK\$ per share | Number of options '000 | Weighted average exercise price HK\$ per share | Number of options '000 |
| At 1 January | 0.510 | 35,700 | 0.623 | 17,500 |
| Granted during the year | 0.16 | 10,000 | 0.4 | 20,000 |
| Lapsed during the year [#] | 0.45 | (15,600) | 0.4 | (1,800) |
| At 31 December | 0.425 | 30,100 | 0.510 | 35,700 |

[#] During the year ended 31 December 2012, 15,600,000 (2011: 1,800,000) share options with a fair value of HK\$2,281,000 (2011: HK\$230,000) lapsed upon cessation of employment of the participants in accordance with terms of the 2002 Scheme.

Notes to Financial Statements

31 December 2012

31. SHARE OPTION SCHEMES (Continued)

2002 Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the respective reporting periods are as follows:

2012

| Number of options '000 | Exercise price* HK\$ per share | Exercise period |
|---------------------------|--------------------------------------|----------------------|
| 3,500 | 0.5 | 27-02-09 to 26-02-14 |
| 7,400 | 0.68 | 11-01-10 to 10-01-15 |
| 12,200 | 0.4 | 27-01-11 to 26-01-16 |
| <u>7,000</u> | 0.16 | 06-01-12 to 05-01-17 |
| <u>30,100</u> | | |

2011

| Number of options '000 | Exercise price* HK\$ per share | Exercise period |
|---------------------------|--------------------------------------|----------------------|
| 5,500 | 0.5 | 27-02-09 to 26-02-14 |
| 12,000 | 0.68 | 11-01-10 to 10-01-15 |
| <u>18,200</u> | 0.4 | 27-01-11 to 26-01-16 |
| <u>35,700</u> | | |

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

The fair value of the share options granted during the year ended 2012 was HK\$540,000, HK\$0.054 each (2011: HK\$2,560,000, HK\$0.128 each), of which the Group recognised a share option expense of HK\$540,000 (2011: HK\$2,560,000) during the year ended 31 December 2012.

Notes to Financial Statements

31 December 2012

31. SHARE OPTION SCHEMES (Continued)

2002 Scheme (Continued)

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| Date of grant | 5 January 2012 | 27 January 2011 |
|---|-------------------|--------------------|
| Dividend yield (%) | — | — |
| Expected volatility (%) | 67.645% | 67.27% |
| Historical volatility (%) | 67.645% | 67.27% |
| Risk-free interest rate (%) | 1.025% | 1.681% |
| Expected life of options (year) | 5 years | 5 years |
| Weighted average share price (HK\$ per share) | HK\$0.16 | HK\$0.4 |

The expected life of the options is based on the historical data over the past two years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which also may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 30,100,000 share options outstanding under the 2002 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 30,100,000 additional ordinary shares of the Company and additional share capital of HK\$3,010,000 and share premium of HK\$9,772,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 30,100,000 share options outstanding under the 2002 Scheme, which represented approximately 0.67% of the Company's shares in issue as at that date.

2013 Scheme

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 28 March 2013, a new share option scheme (the "2013 Scheme") is adopted. Further details of the 2013 Scheme are set out in the Company's circular dated 8 March 2013.

Notes to Financial Statements

31 December 2012

32. RESERVES

(a) Group

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

(b) Company

| | Notes | Share premium HK\$'000 | Contributed surplus HK\$'000 (note i) | Special reserve HK\$'000 (note ii) | Capital redemption reserve HK\$'000 | Share option reserve HK\$'000 | Convertible bond reserve HK\$'000 | Retained profits/losses (accumulated) HK\$'000 | Total HK\$'000 |
|---|-------|---------------------------|---|--|--|----------------------------------|--------------------------------------|--|-------------------|
| At 1 January 2011 | | 144,997 | 335,050 | 17,275 | 85 | 3,562 | 949,739 | 33,024 | 1,483,732 |
| Loss for the year and total comprehensive loss for the year | | — | — | — | — | — | — | (664,424) | (664,424) |
| Final 2010 dividend paid | — | — | — | — | — | — | — | (900) | (900) |
| Issue of shares | 30(a) | — | 84,600 | — | — | — | (102,600) | — | (18,000) |
| Equity-settled share option arrangements | 31 | — | — | — | — | 2,560 | — | — | 2,560 |
| Lapsed share options | 31 | — | — | — | — | (230) | — | 230 | — |
| Arising from modification of convertible bonds | 28 | — | — | — | — | — | (14,011) | 14,011 | — |
| Arising from early redemption of convertible bonds | 28 | — | — | — | — | — | (3,778) | 2,753 | (1,025) |
| At 31 December 2011 and 1 January 2012 | | 144,997 | 419,650 | 17,275 | 85 | 5,892 | 829,350 | (615,306) | 801,943 |
| Loss for the year and total comprehensive loss for the year | | — | — | — | — | — | — | (26) | (26) |
| Equity-settled share option arrangements | 31 | — | — | — | — | 540 | — | — | 540 |
| Lapsed share options | 31 | — | — | — | — | (2,281) | — | 2,281 | — |
| At 31 December 2012 | | 144,997 | 419,650 | 17,275 | 85 | 4,151 | 829,350 | (613,051) | 802,457 |

Notes:

- (i) The contributed surplus represents the excess of value of shares converted upon conversion of the 2008 Convertible Bonds over the nominal amount of the ordinary shares issued pursuant to Section 40(1) of the Bermuda Companies Act 1981.
- (ii) The Company's special reserve represents the excess of the combined net assets of the subsidiaries acquired over the nominal amount of the Company's shares issued for the acquisition.

Notes to Financial Statements

31 December 2012

33. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings, and convertible bonds which are secured by certain assets of the Group, are included in notes 13, 23, 27 and 28 to the financial statements.

34. CAPITAL COMMITMENTS

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

| | Group | |
|--------------------------------------|-----------------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| Acquisitions of plant and equipment: | | |
| Authorised, but not contracted for | 23,855 | 17,290 |
| Contracted, but not provided for | 18,007 | 31,771 |

35. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its leasehold interests in land and properties under operating lease arrangements. Leases for properties are negotiated for term ranging from two to ten years.

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

| | Group | |
|---|-----------------|----------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| Within one year | 1,342 | 1,812 |
| In the second to fifth years, inclusive | 4,933 | 4,878 |
| After five years | 2,981 | 4,166 |
| | 9,256 | 10,856 |

Notes to Financial Statements

31 December 2012

36. RELATED PARTY TRANSACTIONS

- (a) 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 |
|--|-------|------------------|------------------|
| With the Non-controlling Shareholder: | | | |
| Sales of refined coal and electricity | (i) | 172,610 | 416,161 |
| Sale of coke | (i) | 6,808 | — |
| Sales of mid coal | (i) | — | 7,311 |
| Sales of by-products | (i) | 47,906 | 44,326 |
| Transportation income | (i) | 5,666 | 7,961 |
| Purchases of coke | (i) | 16,008 | 134,997 |
| Rental expenses | (ii) | 1,233 | 1,205 |
| Reimbursement of finance costs | (i) | — | 3,555 |
| Reimbursement of amendment fee and legal fee for an export loan | (i) | — | 2,300 |
| With the related companies of the Non-controlling Shareholder*: | | | |
| Sales of electricity | (i) | 23,858 | 6,733 |
| Sales of sundry materials | (i) | 2,079 | — |
| Purchases of raw coal | (i) | — | 112,861 |

* These related companies are either a subsidiary or associates of the Non-controlling Shareholder.

Notes:

- (i) The transactions were conducted on basis mutually agreed by the respective parties, with reference to prevailing market rates or prices transacted with the Group's third party customers/suppliers.
- (ii) The rental expense was charged based on terms mutually agreed between the contractual parties.

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36. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties.

Balances with the Non-controlling Shareholder at the end of the reporting period are set out in note 22.

A summary of the Group's balances with other related parties is set out below.

- (i) Included in trade and bills receivables (note 20) are trade receivables of HK\$6,020,000 (2011: Nil) and HK\$13,497,000 (2011: HK\$750,000) due from a subsidiary and an associate of the Non-controlling Shareholder, respectively, for the sales of electricity, coal gas. The balances are unsecured, non-interest bearing and to be settled in course of business.
- (ii) As at 31 December 2012 included in prepayments, deposits and other receivables (note 21) are balances of HK\$34,421,000 (2011: HK\$70,624,000) due from a related company which is an associate of the Non-controlling Shareholder. The balances comprised (i) a prepayment of HK\$22,088,000 (HK\$70,624,000) for purchase of raw materials, which is repayable on similar credit terms to those offered to the major customers of the Group and (ii) an advance of HK\$12,333,000 (2011: Nil), which is unsecured, non-interest-bearing and repayable on demand.

Subsequent to the year end, the Group has entered into an agreement with the holder of a promissory note (the Non-controlling Shareholder) and its affiliates pursuant to which the promissory note payable by the Group will be satisfied with trade and other receivables due from, and prepayments paid to, the noteholder and its affiliates upon maturity of the promissory note on 9 June 2013.

- (iii) Included in the trade and bills payables (note 24) are trade payables of HK\$11,932,000 (2011: HK\$24,078,000) due to a related company, an associate of the Non-controlling Shareholder, which are unsecured, non-interest-bearing and repayable within 120 days.

(c) Commitments with a related party

On 30 May 2010, 金岩和嘉 entered into a 10-year operating lease arrangement ending 29 May 2020 with the Non-controlling Shareholder, to lease the land for the Group's production plants. The total rental expenses paid to the Non-controlling Shareholder for the year are included in note 36(a)(ii) to the financial statements. The total operating lease commitments fully due within one year, in the second to fifth years, and beyond the fifth years as at 31 December 2012 were approximately HK\$1,233,000 (2011: HK\$1,220,000), HK\$4,933,000 (2011: HK\$4,878,000) and HK\$2,981,000 (2011: HK\$4,166,000), respectively.

Notes to Financial Statements

31 December 2012

36. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

The remuneration of directors and other members of key management during the year were as follows:

| | Group | |
|---|------------------|------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 |
| Salaries, allowances and benefits in kind | 4,478 | 5,750 |
| Equity-settled share option expense | 405 | 1,920 |
| Pension scheme contribution | 13 | 21 |
| | 4,896 | 7,691 |

Further details of directors' emoluments are included in note 8 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

| 2012 Financial assets | Group | | |
|---|--------------------------------------|---|-------------------|
| | Loans and receivables HK\$'000 | Available- for-sale financial assets HK\$'000 | Total HK\$'000 |
| Available-for-sale investments | — | 4,688 | 4,688 |
| Trade and bills receivables | 67,348 | — | 67,348 |
| Financial assets included in prepayments, deposits and other receivables | 186,539 | — | 186,539 |
| Amount due from the Non-controlling Shareholder | 74,351 | — | 74,351 |
| Cash and cash equivalents | 9,986 | — | 9,986 |
| | 338,224 | 4,688 | 342,912 |

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37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

| 2012 Financial liabilities | Group | | |
|---|---|--|-------------------|
| | Financial liabilities at fair value through profit or loss - held for trading HK\$'000 | Financial liabilities at amortised costs HK\$'000 | Total HK\$'000 |
| Trade and bills payables | — | 261,342 | 261,342 |
| Financial liabilities included in other payables and accruals | — | 73,463 | 73,463 |
| Interest-bearing bank and other borrowings | — | 128,833 | 128,833 |
| Convertible bonds | — | 205,789 | 205,789 |
| Derivative financial instruments | 46,025 | — | 46,025 |
| Amount due to the Non-controlling Shareholder | — | 19,201 | 19,201 |
| Promissory notes | — | 231,171 | 231,171 |
| | 46,025 | 919,799 | 965,824 |

| 2011 Financial assets | Group | | |
|--|-----------------------------------|---|-------------------|
| | Loans and receivables HK\$'000 | Available-for-sale financial assets HK\$'000 | Total HK\$'000 |
| Available-for-sale investments | — | 4,660 | 4,660 |
| Trade and bills receivables | 112,323 | — | 112,323 |
| Financial assets included in prepayments, deposits and other receivables | 8,307 | — | 8,307 |
| Amount due from the Non-controlling Shareholder | 311,621 | — | 311,621 |
| Pledged deposits | 121,951 | — | 121,951 |
| Cash and cash equivalents | 11,380 | — | 11,380 |
| | 565,582 | 4,660 | 570,242 |

Notes to Financial Statements

31 December 2012

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

| 2011 Financial liabilities | Financial liabilities at fair value through profit or loss - held for trading <i>HK\$'000</i> | Group | |
|--|---|--|--------------------------|
| | | Financial liabilities at amortised costs <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Trade and bills payables | — | 479,463 | 479,463 |
| Financial liabilities included in other payables and accruals | — | 111,181 | 111,181 |
| Interest-bearing bank and other borrowings | — | 193,196 | 193,196 |
| Convertible bonds | — | 180,556 | 180,556 |
| Derivative financial instruments | 36,751 | — | 36,751 |
| Amount due to the Non-controlling Shareholder | — | 7,201 | 7,201 |
| Promissory notes | — | 216,836 | 216,836 |
| | 36,751 | 1,188,433 | 1,225,184 |

| Financial assets | Company | |
|-------------------------------|--|--|
| | 2012 Loan and receivables <i>HK\$'000</i> | 2011 Loan and receivables <i>HK\$'000</i> |
| Amounts due from subsidiaries | 1,649,935 | 1,590,935 |
| Bank balances | 264 | 244 |
| | 1,650,199 | 1,591,179 |

Notes to Financial Statements

31 December 2012

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

| 2012 Financial liabilities | Company | | |
|---|---|--|-------------------|
| | Financial liabilities at fair value through profit or loss - held for trading HK\$'000 | Financial liabilities at amortised costs HK\$'000 | Total HK\$'000 |
| Financial liabilities included in other payables and accruals | — | 3,092 | 3,092 |
| Amounts due to subsidiaries | — | 140,543 | 140,543 |
| Convertible bonds | — | 205,789 | 205,789 |
| Derivative financial instruments | 46,025 | — | 46,025 |
| | 46,025 | 349,424 | 395,449 |

| 2011 Financial liabilities | Company | | |
|---|---|--|-------------------|
| | Financial liabilities at fair value through profit or loss - held for trading HK\$'000 | Financial liabilities at amortised costs HK\$'000 | Total HK\$'000 |
| Financial liabilities included in other payables and accruals | — | 3,094 | 3,094 |
| Amounts due to subsidiaries | — | 116,542 | 116,542 |
| Convertible bonds | — | 180,556 | 180,556 |
| Derivative financial instruments | 36,751 | — | 36,751 |
| | 36,751 | 300,192 | 336,943 |

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38. FAIR VALUE HIERARCHY

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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Asset measured at fair value:

Group

As at 31 December 2012 and 2011

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|--------------------------------|---------------------|---------------------|---------------------|-------------------|
| Available-for-sale investments | 2,221 | — | — | 2,221 |

Liabilities measured at fair value:

Group and Company

As at 31 December 2012

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| Derivative financial instruments | — | 46,025 | — | 46,025 |

As at 31 December 2011

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| Derivative financial instruments | — | 36,751 | — | 36,751 |

Notes to Financial Statements

31 December 2012

39. TRANSFER OF FINANCIAL ASSETS

At 31 December 2012, the Group discounted certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to certain banks (the "Discounting Banks") in order to receive early cash settlement of the Derecognised Bills with carrying amounts of HK\$88,185,000. The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the Discounting Banks have a right of recourse against the Group if the banks issuing the bills are in default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2012, the Group had recognised finance costs of HK\$5,351,000 of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise promissory notes, convertible bonds, derivative financial instruments, and interest-bearing bank and other borrowings. 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 and bills receivables, deposits and other receivables, amounts due from/to the Non-controlling Shareholder, pledged deposits, cash and cash equivalents, trade and bills payables, and other payables and accruals, 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.

Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's fair value interest rate risk relates primarily to short term pledged bank deposits. The Group is also exposed to cash flow interest rate risk through the impact of interest rate changes on deposits with banks and floating interest rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Notes to Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

The Group's concentration of cash flow interest rate risk is mainly on pledged bank deposits and bank borrowings in relation to movements in the interest at rates with reference to the People's Bank of China and Hong Kong Inter-Bank Offered Rate, respectively.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and the Group's equity.

| | Group | | |
|------------------|--|---|---|
| | Increase/ (decrease) in basis points | Increase/ (decrease) in loss before tax <i>HK\$'000</i> | Increase/ (decrease) in equity <i>HK\$'000</i> |
| 2012 | | | |
| Hong Kong dollar | 100 | 762 | (762) |
| Hong Kong dollar | (100) | (762) | 762 |
| | | Group | |
| | Increase/ (decrease) in basis points | Increase/ (decrease) in loss before tax <i>HK\$'000</i> | Increase/ (decrease) in equity <i>HK\$'000</i> |
| 2011 | | | |
| Hong Kong dollar | 100 | 896 | (896) |
| Hong Kong dollar | (100) | (896) | 896 |

Notes to Financial Statements

31 December 2012

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB"), United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group is exposed to foreign currency risk arising from the monetary assets and liabilities that are denominated in other than functional currency of the respective group entities.

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

The following table demonstrates the sensitivity at the end of the reporting periods to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in USD rate % | Increase/ (decrease) in loss before tax HK\$'000 |
|---|---|---|
| 2012 | | |
| If the Hong Kong dollar weakens against the USD | 0.5% | 427 |
| If the Hong Kong dollar strengthens against the USD | (0.5%) | (427) |
| 2011 | | |
| If the Hong Kong dollar weakens against the USD | 0.5% | 331 |
| If the Hong Kong dollar strengthens against the USD | (0.5%) | (331) |

Credit risk

The Group trades only with recognised and creditworthy 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. The Group reviews the recoverable amount of each amount due from individual debtors at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Notes to Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, available-for-sale investments, and other receivables, arises from default of the counterparty, with a maximum exposure equals to the carrying amounts of these instruments.

In addition to the concentration of credit risk on prepayments to the Non-controlling Shareholder, and a related company, and other receivable due from a related company (note 21), the Group had a concentration of credit risk as 52% (2011: 74%) and 10% (2011: 6%) of the Group's trade receivables were due from the Non-controlling Shareholder and an independent third party, respectively, as at 31 December 2012.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds, promissory notes and interest-bearing bank and other loans.

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

Group

| | On demand or less than 3 months HK\$'000 | 3 to less than 12 months HK\$'000 | 1 to 5 years HK\$'000 | Total HK\$'000 |
|--|---|--|-----------------------------|-------------------|
| 2012 | | | | |
| Trade and bills payables | 210,121 | 51,221 | — | 261,342 |
| Financial liabilities included in other payables and accruals | 73,463 | — | — | 73,463 |
| Promissory notes | — | 236,482 | — | 236,482 |
| Interest-bearing bank and other borrowings* | 128,833 | — | — | 128,833 |
| Convertible bonds [#] | 180,970 | — | — | 180,970 |
| Amount due to the Non-controlling Shareholder | — | — | 19,201 | 19,201 |
| | 593,387 | 287,703 | 19,201 | 900,291 |

Notes to Financial Statements

31 December 2012

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group (Continued)

| | On demand or less than 3 months HK\$'000 | 3 to less than 12 months HK\$'000 | 1 to 5 years HK\$'000 | Total HK\$'000 |
|--|---|--|-----------------------------|-------------------|
| 2011 | | | | |
| Trade and bills payables | 388,908 | 90,555 | — | 479,463 |
| Financial liabilities included in other payables and accruals | 111,181 | — | — | 111,181 |
| Promissory notes | — | — | 233,829 | 233,829 |
| Interest-bearing bank and other borrowings* | 193,196 | — | — | 193,196 |
| Convertible bonds [#] | 203,934 | — | — | 203,934 |
| Amount due to the Non-controlling Shareholder | — | — | 7,201 | 7,201 |
| | 897,219 | 90,555 | 241,030 | 1,228,804 |

Company

| | 2012 On demand or less than 3 months HK\$'000 | 2011 On demand or less than 3 months HK\$'000 |
|--|--|---|
| Financial liabilities included in other payables and accruals | 3,092 | 3,094 |
| Amounts due to subsidiaries | 140,543 | 116,542 |
| Convertible bonds [#] | 180,970 | 203,934 |
| | 324,605 | 323,570 |

Notes to Financial Statements

31 December 2012

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

- * Included in interest-bearing bank and other borrowings are a mortgage loan, and an other bank loan for which the related agreements contain a repayment on-demand clause giving the bank and the lender the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors consider that the loans will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements. This evaluation was made considering the Group's compliance with the loan covenants and loan terms, and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the interest-bearing mortgage loan and other bank loan, the contractual undiscounted payments as at 31 December 2012 were HK\$46,156,000 payable in 2013, HK\$25,413,000 during 2014 to 2017 and HK\$60,886,000 in 2018 and beyond. The contractual undiscounted payments as at 31 December 2011 were HK\$170,659,000 in 2012, HK\$22,620,000 during 2013 to 2016 and HK\$5,445,000 in 2017 and beyond.

- # The balance represented the convertible bonds held by PGI which are due on 23 May 2013. As stated in note 28 of the financial statements, on 31 December 2012, the Group had not complied with certain financial covenants stipulated in the 2012 PGI CB, and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

As at 31 December 2011, the Second PGI Amendment Agreement and the Second PGI Supplemental Deed were conditional, subject to the fulfilment for certain conditions including the approval of shareholders at a special general meeting, and therefore, for the purpose of the above maturity profile, the total amount was classified as "on demand". The special general meeting was held on 20 February 2012 and the conditions have been passed on 28 February 2012.

In accordance with the original maturity of the PGI CB, the contractual undiscounted payments as at 31 December 2012 were HK\$208,472,000 payable in 2013. The contractual undiscounted payments as at 31 December 2011 were HK\$55,782,000 in 2012 and HK\$148,151,000 in 2013.

Capital management

The primary objectives of the Group's capital management are 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group regularly monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, an amount due to the Non-controlling Shareholder, and promissory notes, net of cash and cash equivalents. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the end of the respective reporting period were as follows:

Group

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|------------------|------------------|
| Trade and bills payables | 261,342 | 479,463 |
| Other payables and accruals | 183,628 | 212,195 |
| Interest-bearing bank and other borrowings | 128,833 | 193,196 |
| Amount due to the Non-controlling Shareholder | 19,201 | 7,201 |
| Promissory notes | 231,171 | 216,836 |
| <i>Less:</i> Cash and cash equivalents | (9,986) | (11,380) |
| Net debt | 814,189 | 1,097,511 |
| Convertible bonds, the liability component | 205,789 | 180,556 |
| Derivative financial instruments | 46,025 | 36,751 |
| Equity attributable to owners of the parent | 1,175,363 | 1,551,413 |
| Adjusted capital | 1,427,177 | 1,768,720 |
| Capital and net debt | 2,241,366 | 2,866,231 |
| Gearing ratio | 36% | 38% |

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31 December 2012

41. COMPARATIVE AMOUNTS

Certain comparative figures in the segment information have been reclassified to conform with the current year's presentation.

42. EVENTS AFTER THE REPORTING PERIOD

On 28 March 2013, a new share option scheme was approved at a special general meeting of the Company. Further details of the scheme are set out in the Company's circular dated 8 March 2013.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2013.

Particulars of Properties

| Name/location | Lease term | Type | Gross floor area (sq.m.) | Attributable interest |
|---|-------------------|-------|-----------------------------|-----------------------|
| Properties Held for the Group's Own Use | | | | |
| HONG KONG | | | | |
| Units 4203, 4205, 4206 and 4208 42nd Floor Far East Finance Centre 16 Harcourt Road Hong Kong | Long lease | C | 409 | 100% |
| The People's Republic of China | | | | |
| 山西省孝義市經濟開發區金岩路1號 | Medium term lease | C & I | 29,148 | 90% |
| C Commercial | | | | |
| I Industrial | | | | |