1. GENERAL INFORMATION

The Company is an investment holding company and is also engaged in acting as an agent in the coal business, sales and marketing of coal products and sales of jewellery products. The Group is principally engaged in production and sales of coking coal products and side products, acting as an agent in the coal business and sales of jewellery products.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities as at 31 December 2004. In the opinion of the directors, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements, after taking into consideration an undertaking made by China Merit Limited, the ultimate holding company of the Company, to provide continuing financial support to the Group so as to enable the Group to continue in business as a going concern and to meet its liabilities and obligations as and when they fall due for the period at least up to 31 December 2005. Accordingly, the financial statements have been prepared on a going concern basis.

(b) Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements are prepared under the historical cost convention.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

The consolidated financial statements also include the Group's share of post-acquisition results and reserves of its associates.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the sale and the Group's share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries

Subsidiaries are those enterprises in which the Company controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors.

In the Company's balance sheet, investments in subsidiaries are carried at cost less impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(e) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The Group uses the equity method of accounting to account for the results of the associates. The Group's investments in associates are stated at its share of net assets of the associates. The Company's investments in associates are stated at cost less impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except where unrealised losses provide evidence of an impairment of the asset transferred.

(f) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition.

In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses.

In respect of acquisition of associates, goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of goodwill less accumulated amortisation and impairment losses is included in the carrying amount of the interests in associates.

(g) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Commission from coal business

Commission from coal business is recognised when the agreed services are rendered.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Revenue recognition *(continued)*

(ii) Sale of goods

Revenue is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(iii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(h) Construction in progress

Construction in progress represented assets under construction and is stated at cost. Cost includes construction costs plus interest charges arising from borrowings used to finance these assets during the construction period. Capitalisation of these costs ceases and the asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided on construction in progress until the relevant assets are ready for use.

(i) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the depreciable amount of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	2%
Buildings	5%
Plant and machinery	10%
Leasehold improvements	$33\frac{1}{3}$%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the consolidated income statement.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses and are amortised over the lease terms, taking into account the estimated residual value, using the straight line method.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Income tax

(i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately form each other and are not offset.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the consolidated income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

(o) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

The balance sheets of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserves.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefits costs

In Hong Kong, the Group contributes to a Mandatory Provident Fund Scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions are calculated as 5% of employees' salaries and are recognised as an expense in the consolidated income statement as incurred.

In the Peoples' Republic of China (the "PRC"), according to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal government in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees, at 8% to 20%, to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contribution. Contributions under the PRC RB Plan are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC RB Plan.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in a particular business (business segment), or conducting business in a particular geographical area (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(r) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(s) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sales.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the assets are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decision. Parties are also considered to be related if they are subject to common control or common significant influence.

(u) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. REVENUE, TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in production and sales of coking coal products and side products, acting as an agent in the coal business and sales of jewellery products.

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

	2004	2003
	HK$'000	*HK$'000*
Sales of coal products	**6,126**	–
Commission from coal business	**1,241**	853
Sales of jewellery products	**193**	617
Turnover	**7,560**	1,470
Bank Interest income	**248**	614
Other Interest income	**–**	626
Reversal of impairment loss on land and buildings	**–**	2,691
Gain on disposal of partial interest in a subsidiary *(Note)*	**1,083**	–
Gain on disposal of property, plant and equipment	**10**	–
Other income	**9**	–
Other revenue	**1,350**	3,931
Total revenue	**8,910**	5,401

Note: During the year, Jinshan Energy Group Limited, a subsidiary of the Company, disposed of 25% equity interests in its subsidiary, Liulin Luenshan Coking Company Limited, to a minority shareholder for a consideration of approximately HK$7,054,000, resulting in a gain on disposal of approximately HK$1,083,000.

3. REVENUE, TURNOVER AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format - business segment

An analysis of the Group's turnover and loss attributable to shareholders for the year by principal activities is as follows:

	Turnover		Loss attributable to shareholders	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal activities:				
Sales of coal products	**6,126**	–	**(9,290)**	–
Commission from coal business	**1,241**	853	**1,241**	853
Sales of jewellery products	**193**	617	**193**	613
Others	**–**	–	**(8,045)**	(2,970)
	7,560	1,470	**(15,901)**	(1,504)
Finance costs			**(109)**	–
Share of losses of associates			**(2,743)**	(1,301)
			(18,753)	(2,805)
Minority interests			**4,045**	–
			(14,708)	(2,805)

An analysis of the Group's assets, liabilities as at 31 December 2004 and capital expenditure, depreciation and amortisation and impairment incurred for the year by principal activities is as follows:

	Total assets		Total liabilities		Capital expenditure		Depreciation and amortisation		Impairment of goodwill	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Principal activities:										
Sales of coal products	**175,167**	–	**81,222**	–	**50,701**	–	**1,523**	–	**1,531**	–
Commission from coal business	**502**	596	**–**	–	**–**	–	**–**	–	**–**	–
Sales of jewellery products	**–**	230	**–**	–	**–**	–	**–**	–	**–**	–
Unallocated	**33,506**	62,338	**799**	4,461	**–**	39	**577**	471	**–**	–
	209,175	63,164	**82,021**	4,461	**50,701**	39	**2,100**	471	**1,531**	–
Interests in associates	**–**	41,079								
	209,175	**104,243**								

3. REVENUE, TURNOVER AND SEGMENT INFORMATION *(continued)*

(b) Secondary reporting format – geographical segment

An analysis of the Group's turnover, segment results for the year, the Group's assets as at 31 December 2004 and capital expenditure incurred for the year by principal markets is as follows:

	Turnover		Segment results		Total assets		Capital expenditure	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Principal markets								
The PRC	**7,367**	595	**(8,049)**	595	**175,167**	–	**50,701**	–
Hong Kong	**193**	617	**(7,852)**	(2,357)	**34,008**	63,164	**–**	39
Korea	**–**	258	**–**	258	**–**	–	**–**	–
	7,560	1,470	**(15,901)**	(1,504)	**209,175**	63,164	**50,701**	39
Interests in associates					**–**	41,079		
					209,175	104,243		

4. OPERATING LOSS

Operating loss is arrived at after charging:

	2004	2003
	HK$'000	*HK$'000*
Cost of inventories sold	**7,263**	5,990
Less: Provision for inventories written back upon disposal	**(1,715)**	(5,990)
Cost of sales	**5,548**	–
Staff costs *(including directors' remuneration and retirement benefits scheme contributions)*	**6,317**	4,418
Retirement benefits scheme contributions	**174**	75
Depreciation and amortisation of property, plant and equipment	**1,794**	471
Auditors' remuneration		
– audit services	**260**	188
– other services	**96**	–
Operating leases charges in respect of land and buildings	**75**	–
Other operating expenses		
– amortisation of goodwill	**306**	–
– impairment of goodwill	**1,531**	–
– exploration costs incurred for a potential mining project	**2,851**	–

5. FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest on bank loans wholly repayable within five years	**1,057**	–
Less: Borrowing costs capitalised included in construction in progress*	**(948)**	–
	109	–

* *The borrowing costs have been capitalised at a rate of 8% per annum (2003: NIL).*

6. INCOME TAX

(a) No provision for Hong Kong profits tax and the PRC income tax has been made in the financial statements in respect of the Company and its subsidiaries for the year (2003: NIL), as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for setting off against current year's assessable profits or have tax losses for the year.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2004		2003	
	HK$'000	**%**	HK$'000	%
Loss before taxation	**(18,753)**		(2,805)	
Notional tax on loss before taxation, calculated at the rates applicable to loss in the countries concerned	**(4,309)**	**23.0**	(267)	9.5
Tax effect of non-deductible expenses	**2,334**	**(12.5)**	44	(1.6)
Tax effect of non-taxable revenue	**(20)**	**0.1**	(572)	20.4
Tax effect of unused tax losses not recognised	**1,995**	**(10.6)**	795	(28.3)
Actual tax expense	**–**	**–**	–	–

Hong Kong profits tax is calculated at 17.5% (2003: 17.5 %) on the estimated assessable profit/adjusted loss for the year. Taxation for overseas subsidiaries and associates is charged at the appropriate current rates of taxation ruling in the relevant countries.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$6,061,000 (2003: HK$4,044,000).

8. LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the year of HK$14,708,000 (2003: HK$2,805,000) and 2,080,800,000 (2003: 2,080,800,000) ordinary shares in issue during the year.

(b) Diluted

No diluted loss per share has been presented as the Company did not have any share options outstanding for both 2003 and 2004.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Fees		
Executive directors	**–**	–
Non-executive directors	**150**	120
	150	120
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	**2,466**	2,418
Retirement benefits scheme contributions	**24**	24
	2,640	2,562

The emoluments of the directors fell within the following bands:

Emolument bands	**Number of directors**	
	2004	2003
HK$Nil – HK$1,000,000	**5**	3
HK$1,000,001 – HK$1,500,000	**2**	2
	7	5

No directors waived any emoluments in respect of the year ended 31 December 2004 (2003: NIL).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2003: NIL).

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The aggregate amounts of the emoluments paid to the five highest paid individuals of the Group whose emoluments have not been disclosed in the directors' emoluments noted above are as follows:

	2004	2003
	HK$'000	*HK$'000*
Basis salaries, housing allowances, other allowances and benefits in kind	**1,560**	1,246
Retirement benefits scheme contributions	**36**	30
	1,596	1,276

The number of the highest paid individuals whose emoluments have not been disclosed in the directors' emoluments noted above and fell within the following band is as follows:

Emolument bands	**Number of individuals**	
	2004	2003
HK$Nil – HK$1,000,000	**3**	3

10. PROPERTY, PLANT AND EQUIPMENT

Group

	Construction in progress	**Leasehold land and buildings**	**Plant and machinery**	**Leasehold improvements**	**Office equipment**	**Furniture and fixtures**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At 1 January 2004	–	9,970	–	696	275	91	601	11,633
Additions								
– through acquisition of subsidiaries	3,309	6,481	3,021	–	45	4	5,184	18,044
– Others	50,453	–	88	–	48	–	112	50,701
Disposals	–	–	–	–	–	–	(83)	(83)
At 31 December 2004	**53,762**	**16,451**	**3,109**	**696**	**368**	**95**	**5,814**	**80,295**
Accumulated depreciation/ amortisation and impairment losses								
At 1 January 2004	–	1,970	–	367	207	76	601	3,221
Charge for the year	–	461	180	232	28	5	888	1,794
Written back on disposals	–	–	–	–	–	–	(19)	(19)
At 31 December 2004	**–**	**2,431**	**180**	**599**	**235**	**81**	**1,470**	**4,996**
Net book value								
At 31 December 2004	**53,762**	**14,020**	**2,929**	**97**	**133**	**14**	**4,344**	**75,299**
At 31 December 2003	–	8,000	–	329	68	15	–	8,412

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The leasehold land and buildings of the Group are situated in Hong Kong and the PRC and held under medium term leases. The net book values of leasehold land and buildings of the Group situated in Hong Kong and the PRC are approximately HK$7,680,000 and HK$6,340,000 respectively.

At 31 December 2004, the cost of land and buildings of the Group includes an amount of HK$246,000 (2003: NIL) which represents the costs of the land use rights of the Group and the related accumulated amortisation amounts to HK$33,000 (2003: NIL).

At 31 December 2004, the Group's bank loan of HK$37,622,000 (2003: NIL) is secured by the Group's construction in progress with a carrying value of HK$26,882,000 (2003: NIL) (Note 20).

Company

	Leasehold improvements *HK$'000*	**Office equipment** *HK$'000*	**Furniture and fixtures** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Cost					
At 1 January 2004	696	266	91	601	1,654
Additions	–	–	–	–	–
At 31 December 2004	**696**	**266**	**91**	**601**	**1,654**
Accumulated depreciation/ amortisation					
At 1 January 2004	368	198	76	601	1,243
Charge for the year	231	20	5	–	256
At 31 December 2004	**599**	**218**	**81**	**601**	**1,499**
Net book value					
At 31 December 2004	**97**	**48**	**10**	**–**	**155**
At 31 December 2003	328	68	15	–	411

11. GOODWILL

	Group	
	2004 ***HK$'000***	2003 *HK$'000*
Arising on acquisition of subsidiaries and at 31 December	**1,837**	–
Accumulated amortisation and impairment losses		
– amortisation charge for the year	**(306)**	–
– impairment loss	**(1,531)**	–
– at 31 December	**(1,837)**	–
Net book value at 31 December	**–**	–

The estimated useful life of the goodwill is three years. At the balance sheet date, the management assessed the carrying amount of goodwill and impairment loss of HK$1,531,000 has been charged to the consolidated income statement during the year.

12. INTEREST IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**22,256**	22,256
Less: Provision for impairment losses	**(22,256)**	(22,256)
	–	–
Amounts due from subsidiaries	**213,355**	203,873
Less: Provision for doubtful amounts	**(150,917)**	(151,324)
	62,438	52,549

The amounts due from subsidiaries are unsecured, interest-free and not repayable within 12 months from the balance sheet date.

Particulars of the subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Group's effective interest held 2004	2003
Jinshan Energy Group Limited ("Jinshan")*	PRC	Investment holding, production and sales of of coal products in the PRC	Registered capital of RMB100,000,000	**65%**	–
Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng")*	PRC	Production and sales of coal products in the PRC	Registered capital of RMB30,000,000	**45.5%#**	–
Liulin Luenshan Coking Company Limited ("Luenshan")*	PRC	Production and sales of coal products in the PRC	Registered capital of RMB30,000,000	**42.25%#**	–
Fushan Energy Group Limited	British Virgin Islands	Investment holding in the PRC	1 ordinary share of US$1 each	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong	Jewellery retailing and wholesaling in Hong Kong	2,000,000 ordinary shares of HK$1 each	**100%**	100%

12. INTEREST IN SUBSIDIARIES *(continued)*

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Group's effective interest held 2004	2003
Fu Hui Investments Limited	Hong Kong	Provision of financing arrangements in Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%
Jumbo Hall International Limited	Hong Kong	Property holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%
New Honest Limited	British Virgin Islands	Investment holding in the PRC	1 ordinary share of US$1 each	**100%**	100%
Maxease Limited	British Virgin Islands	Dormant	1 ordinary share of US$1 each	**100%**	100%
Full Bright International Limited	New York, U.S.A.	Dormant	US$183,750	**100%**	100%

* *These companies were indirectly held by the Company and were joint ventures incorporated in the PRC with limited liability.*

\# *These companies are subsidiaries of Jinshan and accordingly, are accounted for as subsidiaries of the Company.*

During the year, Fushan Energy Group Limited, a wholly-owned subsidiary of the Company, increased its equity interests in Jinshan from 45% to 65% by acquiring an additional 20% equity interest in Jinshan. Accordingly, Jinshan, an associate of the Group as at 31 December 2003, and its two subsidiaries, Risheng and Luenshan became subsidiaries of the Company since then.

13. INTEREST IN ASSOCIATES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**–**	–	**4**	4
Share of net assets	**–**	41,079	**–**	–
Amount due from an associate	**3,739**	3,739	**3,739**	3,739
	3,739	44,818	**3,743**	3,743
Less: Provision for doubtful amount	**(3,739)**	(3,739)	**(3,743)**	(3,743)
	–	41,079	**–**	–

The amount due from an associate is unsecured, interest-free and not repayable within 12 months from the balance sheet date.

13. INTEREST IN ASSOCIATES *(continued)*

Particulars of the associates at 31 December 2004 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Group's effective interest held 2004	Group's effective interest held 2003
Real Wide Limited	Hong Kong	Dormant	10,000 ordinary shares of HK$1 each	***45%**	*45%
Jinshan Energy Group Limited	PRC	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB100,000,000	****–**	45%
Shanxi Yao Zin Coal and Coking Company Limited	PRC	Production and sales of coal products in the PRC	Registered capital of RMB40,000,000	*****38%**	–

* *Held by the Company directly.*

** *During the year, Jinshan and its subsidiaries became subsidiaries of the Group (Note 12).*

*** *A sino-foreign equity joint-venture established on 15 December 2004. No capital contribution has been injected to the joint-venture by the Group as at 31 December 2004 (Note 28 a).*

14. PREPAYMENTS AND DEPOSITS

Included in prepayments and deposits of the Group were (a) a deposit of HK$23,514,000 paid by a subsidiary for a potential mining project; and (b) prepayments of HK$67,894,000 paid by another subsidiary for construction and installation of certain property, plant and machinery.

15. INVENTORIES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Raw materials	**100,284**	101,967	**93,801**	93,801
Finished goods	**68,371**	68,403	**64,468**	64,500
	168,655	170,370	**158,269**	158,301
Less: Provision for inventories	**(168,655)**	(170,370)	**(158,269)**	(158,301)
	–	–	**–**	–

16. TRADE RECEIVABLES

General credit terms of the Group range from 60 to 90 days. At 31 December 2004, the ageing analysis of the trade receivables (net of specific provision for bad and doubtful debts) was as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current – 3 months	**502**	826	**502**	596

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks	**27,275**	51,161	**22,572**	41,127
Cash at bank and on hand	**9,056**	2,672	**1,336**	2,600
	36,331	53,833	**23,908**	43,727
Pledged bank deposit*	**(4,703)**	–		
Cash and cash equivalents	**31,628**	53,833		

* *At 31 December 2004, the Group's bills payable of HK$4,703,000 were secured by a bank deposit of HK$4,703,000.*

Included in cash and cash equivalents of the Group are cash and bank balances of HK$11,308,000 (2003: NIL) denominated in Renminbi.

18. TRADE PAYABLES

At 31 December 2004, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current – 3 months	**1,152**	–	**–**	–

19. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000.

19. EMPLOYEE RETIREMENT BENEFITS *(continued)*

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal government in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees, at 8% to 20%, to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contribution.

20. BANK LOAN

At 31 December 2004, the bank loan was repayable as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**37,622**	–	**–**	–

At 31 December 2004, the bank loan of HK$37,622,000 was secured by certain construction in progress of a subsidiary with a carrying value of HK$26,882,000 (Note 10) and was guaranteed by the ultimate holding company, China Merit Limited and Jinshan. The loan was interest bearing at 8% per annum.

21. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company, in which a substantial shareholder of the Company who is also a director of the Company has beneficial interest, is unsecured, interest-free and is not expected to be settled within one year.

22. SHARE CAPITAL

	Number of shares		Company	
	2004	2003	**2004**	2003
			HK$'000	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	**5,000,000,000**	5,000,000,000	**500,000**	500,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	**2,080,800,000**	2,080,800,000	**208,080**	208,080

23. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 20 June 2003, the shareholders of the Company approved the adoption of a new option scheme (the "Scheme") and to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. The Scheme is designed to reward and provide incentive to, and strengthen the Group's business relationship with, the prescribed classes of participants, including eligible employees and directors of any member of the Group, who may contribute to the growth and development of the Group.

23. SHARE OPTION SCHEME *(continued)*

The exercise price of options is to be determined by the Directors and is the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant.

No share options were granted under the Scheme during the year ended 31 December 2004 (2003: NIL) and no share option was outstanding as at 31 December 2004 (2003: NIL).

24. RESERVES

Group

	Share premium	**Accumulated losses**	**Other reserves**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	399,169	(504,544)	–	(105,375)
Exchange difference on translation of the financial statements of foreign entities	–	–	(118)	(118)
Loss for the year	–	(2,805)	–	(2,805)
At 31 December 2003 and 1 January 2004	399,169	(507,349)	(118)	(108,298)
Loss for the year	–	(14,708)	–	(14,708)
At 31 December 2004	**399,169**	**(522,057)**	**(118)**	**(123,006)**

At 31 December 2003, accumulated losses and other reserves included accumulated losses of HK$1,301,000 and other reserves of HK$118,000 attributable to associates respectively.

Company

	Share premium	**Accumulated losses**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2003	399,169	(510,345)	(111,176)
Loss for the year	–	(4,044)	(4,044)
At 31 December 2003 and 1 January 2004	399,169	(514,389)	(115,220)
Loss for the year	–	(6,061)	(6,061)
At 31 December 2004	**399,169**	**(520,450)**	**(121,281)**

25. DEFERRED TAXATION

As at 31 December 2004, no deferred tax liabilities have been provided (2003: NIL) as the amount involved was immaterial and no deferred tax assets have been recognised (2003: NIL) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deductible temporary differences	**23,516**	7,332	**435**	244
Tax losses	**175,078**	167,744	**139,439**	133,450
	198,594	175,076	**139,874**	133,694

The tax losses of the Group of approximately HK$1,432,000 (2003: NIL) and HK$173,646,000 (2003: HK$167,744,000) will expire in five years and do not expire respectively. The tax losses of the Company do not expire under current tax legislation.

26. ACQUISITION OF SUBSIDIARIES

On 8 June 2004, Fushan Energy Group Limited, a wholly-owned subsidiary of the Company, acquired a further 20% equity interest in Jinshan, increasing its equity interests from 45% to 65%, at a consideration of approximately HK$18,875,000 which was satisfied by cash. Accordingly, Jinshan and its two subsidiaries, namely Risheng and Luenshan, became subsidiaries of the Company on 8 June 2004.

	2004	2003
	HK$'000	*HK$'000*
Net assets acquired		
Property, plant and equipment	**18,044**	–
Prepayments for construction and installation of property, plant and equipment and deposit for a potential mining project	**49,699**	–
Prepayments, deposits and other receivables	**22,701**	–
Cash at bank and on hand	**5,245**	–
Other payables	**(161)**	–
Minority interests	**(40,154)**	–
	55,374	–
Share of net assets of associates before acquisition	**(38,336)**	–
	17,038	–
Goodwill arising on acquisition	**1,837**	–
Total consideration paid, satisfied by cash	**18,875**	–
Less: Cash at bank and on hand of the subsidiaries acquired	**(5,245)**	–
Net cash outflow in respect of the purchase of subsidiaries	**13,630**	–

Since the acquisition, the subsidiaries contributed HK$6,126,000 to the Group's turnover and HK$7,553,000 to the consolidated loss before minority interests for the year ended 31 December 2004.

27. MAJOR NON-CASH TRANSACTIONS

	2004	2003
	HK$'000	*HK$'000*
Consideration for purchase of property, plant and equipment outstanding and unpaid included in		
– other payables	**15,773**	–
– bills payable	**4,703**	–
	20,476	–

28. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracted but not provided for:				
– capital expenditure in respect of acquisition of property, plant and equipment	**56,753**	–	**–**	–
– capital expenditure in respect of exploration for a potential mining project	**1,270**	–	**–**	–
– shareholder's loan to an associate	**–**	5,960	**–**	–
– capital investment in an associate	**17,799**	–	**–**	–
	75,822	5,960	**–**	–

(b) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings are payable as follows:

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**279**	–	–	–
In the second to fifth years	**615**	–	–	
After five years	**6,728**	–	–	–
	7,622	–	–	–

The Group leases certain leasehold land and buildings under operating lease arrangements for terms ranging from 2 to 50 years.

29. RELATED PARTY TRANSACTIONS

(a) On 24 June 2004, Jinshan entered into an agreement with Shanxi Luensheng Energy Company Limited ("Luensheng"), a company owned by a minority shareholder of Luenshan and his family, in relation to the disposal by Jinshan of 25% equity interests in Luenshan to Luensheng for a cash consideration of approximately HK$7,054,000. The transaction was completed on 29 June 2004. Further details of this transaction are included in the announcement issued by the Company dated 24 June 2004.

(b) During the year, a company, which is indirectly owned by the substantial shareholder of the Company, Mr. Wong Lik Ping who is also a director of the Company, granted an advance of HK$9,406,000 to one of the subsidiaries of the Company to finance certain construction and installation of coking coal plant and machinery. The amount is unsecured, interest-free and is not expected to be settled within one year (Note 21).

(c) During the year, China Merit Limited, the ultimate holding company of the Company, provided a corporate guarantee in respect of a bank loan of HK$37,622,000 (Note 20) in favour of one of the subsidiaries of the Company at nil consideration.

30. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company as at 31 December 2004 to be China Merit Limited, which is incorporated in the British Virgin Islands.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 15 to 41 were approved by the Directors on 21 April 2005.