Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor Kwan Chart Tower No. 6 Tonnochy Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Directors consider the ultimate holding company as at 31 December 2005 to be China Merit Limited, which is incorporated in the British Virgin Islands.

The principal activities of the Company and its subsidiaries (the "Group") include the production and sales of coking coal products and side products and sale of jewellery products. The principal places of the business are in Hong Kong and the People's Republic of China ("the PRC").

Pursuant to the special resolution passed on 17 June 2005, the name of the Company was changed from "Fushan Holdings Limited 福山控股有限公司" to "Fushan International Energy Group Limited 福山國際能源集團有限公司".

The Group acquired a further 13% of equity interest in an 38% associate, Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin") (山西曜鑫煤焦有限公司) on 11 August 2005. Shanxi Yao Zin then became a 51% subsidiary of the Group after the acquisition. Shanxi Yao Zin is engaged in the production and sale of coking coal products and side products.

The financial statements on pages 17 to 51 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 19 April 2006.

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 January 2005, the Group has adopted for the first time the new or revised HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2. ADOPTION OF NEW OR REVISED HKFRS *(cont'd)*

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, certain 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

(a) Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year. In addition, in previous years, the Group's share of tax attributable to associates was included as a component of the Group's taxation charge/credit in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

(b) Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation.

Upon the adoption of HKAS 17, the leasehold land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently amortised to the consolidated income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

(c) Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies.

Goodwill

In previous years, goodwill arising on acquisition was capitalised and amortised to the consolidated income statement on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 January 2005 and the accumulated amortisation at 31 December 2004 was eliminated against the original gross amount of goodwill. Goodwill is now subject to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its relevant cash generating units.

(d) Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements

2. ADOPTION OF NEW OR REVISED HKFRS *(cont'd)*

(e) The effect of changes in the accounting policies on the consolidated income statement is summarised below:

	Effect of adopting HKAS 17 HK$'000
Year ended 31 December 2005	
Increase in loss – net increase in amortisation charge	43
Year ended 31 December 2004	
Increase in loss – net increase in amortisation charge	33

(f) The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:

	Effect of adopting HKAS 17 HK$'000
At 1 January 2004 (Equity only)	
Increase in equity	
Accumulated losses	879
At 31 December 2004	
Increase/(Decrease) in assets	
Property, plant and equipment	(7,538)
Leasehold land and land use rights	8,384
Increase in equity	
Accumulated losses	846
At 31 December 2005	
Increase/(Decrease) in assets	
Property, plant and equipment	(7,427)
Leasehold land and land use rights	8,230
Increase in equity	
Accumulated losses	803

2. ADOPTION OF NEW OR REVISED HKFRS *(cont'd)*

(g) New Standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 – Financial Reporting in Hyperinflationary Economies[4]

Notes:

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities. The measurement bases are fully described in the accounting policies below.

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of HK$34,124,000 (2004: HK$30,147,000) as at 31 December 2005. 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 2006. Accordingly, the financial statements have been prepared on a going concern basis.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

(c) Subsidiaries

Subsidiaries are those entities 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(d) Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investments in joint ventures. Investment in associates is initially recognised at cost and subsequently accounted for using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) or fair value adjustment attributable to the share in the associate identified on acquisition.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Company's investment in associates is stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(e) Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

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

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong Dollars. Assets and liabilities have been translated into Hong Kong Dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong Dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the translation reserves in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong Dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

(f) Income and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised upon transfer of risk to the customer and when collectibility of the related receivables is reasonably assured.

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

Interest income is recognised on a time-proportion basis using the effective interest method.

Operating expenses are recognised in the consolidated income statement upon utilisation of the services.

(g) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use, and when it is probable that these borrowing costs will result in future economic benefits to the entity, and the costs can be measured reliably. Other borrowing costs are expensed.

(h) Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisition, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually and whenever there is indication that the cash generating unit to which the goodwill relates becomes impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(h) Goodwill *(cont'd)*

Goodwill arising on acquisition on or after 1 January 2005

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the fair value of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

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

(i) 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.

(j) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Buildings held under capital leasing agreements are depreciated over their expected useful lives or over the term of lease, if shorter.

Depreciation on other assets is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	5%
Plant and machinery	10%
Leasehold improvements	$33^1/_3$%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

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

(k) Impairment of assets

Goodwill, property, plant and equipment, leasehold land and land use rights and interests in subsidiaries and associates are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(k) Impairment of assets *(cont'd)*

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

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

(l) 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.

Land use rights or prepaid land lease payments are up-front payments to acquire the land use rights or leasehold land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

(m) Financial assets – Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in the consolidated income statement.

Trade and other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises direct materials, direct labour and an appropriate proportion of overheads, based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(o) Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(o) Accounting for income taxes *(cont'd)*

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

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

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

Changes in deferred tax assets or liabilities are recognised in the consolidated income statement, or in equity if they relate to items that are charged or credited directly to equity.

(p) Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand, demand deposits with banks and other financial institutions.

(q) Share capital

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

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

(r) Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

In Hong Kong, the Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("the MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all employees in Hong Kong. Contributions are made based on 5% of the employees' basic salaries, subject to a cap of monthly relevant salaries of HK$20,000 and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

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 governments 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 ("Employer contributions"). 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 Employer contributions. 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.

Short term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(s) Financial liabilities

The Group's financial liabilities include bank loans, other loans, amount due to ultimate holding company, related companies, minority equity holders of subsidiaries and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

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

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(t) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are based on where the assets are located.

(u) Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company or Group; (2) has an interest in the Company or Group that gives it significant influence over the Company or Group; or (3) has joint control over the Company or Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv); or

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

Impairment of assets

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

5. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and services rendered. Revenue recognised during the year is as follows:

	2005 **HK\$'000**	2004 HK\$'000
Sales of coal products	**10,230**	6,126
Commission from coal business	**–**	1,241
Sales of jewellery products	**2**	193
Revenue	**10,232**	7,560

6. SEGMENT INFORMATION

(a) Primary reporting format – business segments

An analysis of the Group's revenue, segment results and loss for the year by principal activities is as follows:

	Revenue		**Segment results**	
	2005 **HK\$'000**	2004 HK\$'000	**2005** **HK\$'000**	(Restated) 2004 HK\$'000
Principal activities:				
Sales of coal products	**10,230**	6,126	**(11,132)**	(9,290)
Commission from coal business	**–**	1,241	**–**	1,241
Sales of jewellery products	**2**	193	**2**	193
Unallocated expenses	**–**	–	**(6,980)**	(8,078)
	10,232	7,560	**(18,110)**	(15,934)
Finance costs			**(202)**	(109)
Share of results of associates			**(1,366)**	(2,743)
Loss for the year			**(19,678)**	(18,786)

6. SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – business segments *(cont'd)*

An analysis of the Group's assets, liabilities and capital expenditure as at 31 December 2005 by principal activities is as follows:

	Total assets		**Total liabilities**		**Capital expenditure**	
	2005 HK$'000	(Restated) 2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	(Restated) 2004 HK$'000
Principal activities:						
Sales of coal products	**365,317**	175,167	**245,612**	81,222	**156,056**	64,899
Commission from coal business	**–**	502	**–**	–	**–**	–
Sales of jewellery products	**–**	–	**–**	–	**–**	–
Unallocated	**18,482**	34,352	**10,726**	799	**587**	–
	383,799	210,021	**256,338**	82,021	**156,643**	64,899

An analysis of the Group's depreciation and amortisation and impairment incurred for the year by principal activities is as follows:

	Depreciation		**Amortisation**		**Impairment of goodwill**	
	2005 HK$'000	(Restated) 2004 HK$'000	**2005 HK$'000**	(Restated) 2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Principal activities:						
Sales of coal products	**2,181**	1,154	**204**	370	**479**	1,531
Commission from coal business	**–**	–	**–**	–	**–**	–
Sales of jewellery products	**–**	–	**–**	–	**–**	–
Unallocated	**460**	502	**107**	107	**–**	–
	2,641	1,656	**311**	477	**479**	1,531
Less: Depreciation capitalised included in construction in progress	**(53)**	–	**–**	–	**–**	–
	2,588	1,656	**311**	477	**479**	1,531

6. SEGMENT INFORMATION *(cont'd)*

(b) Secondary reporting format – geographical segments

An analysis of the Group's revenue, segment results for the year, the Group's assets as at 31 December 2005 and capital expenditure incurred for the year by principal markets is as follows:

	Revenue		Segment results		Total assets		Capital expenditure	
				(Restated)		(Restated)		(Restated)
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Principal markets:								
PRC	**10,230**	7,367	**(11,132)**	(8,049)	**365,317**	175,167	**156,056**	64,899
Hong Kong	**2**	193	**(6,978)**	(7,885)	**18,482**	34,854	**587**	–
	10,232	7,560	**(18,110)**	(15,934)	**383,799**	210,021	**156,643**	64,899

7. OTHER OPERATING INCOME

	2005 HK$'000	2004 HK$'000
Bank interest income	**295**	248
Gain on disposal of partial interest in a subsidiary (Note)	**–**	1,083
Gain on disposal of property, plant and equipment	**40**	10
Others	**–**	9
	335	1,350

Note: In 2004, Shanxi Jinshan Energy Limited, a subsidiary of the Company, disposed of a 25% equity interest 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.

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest charges on:		
Bank loans and overdrafts repayable within five years	**2,877**	1,057
Other loans wholly repayable within five years	**6,254**	–
Total borrowing costs	**9,131**	1,057
Less: interest capitalised to construction in progress*	**(8,929)**	(948)
	202	109

* The borrowing costs have been capitalised at rates ranging from 6.00% to 8.00% per annum (2004: 8.00%)

9. LOSS BEFORE INCOME TAX

	2005 HK$'000	(Restated) 2004 HK$'000
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	**9,275**	7,263
Less: Provision for inventories written back upon disposal	**(29)**	(1,715)
Cost of sales	**9,246**	5,548
Staff costs (including directors' remuneration and retirement benefits schemes contributions) (Note 13)	**7,643**	6,317
Depreciation of property, plant and equipment	**2,641**	1,656
Less: Amount capitalised to construction in progress	**(53)**	–
	2,588	1,656
Amortisation of operating lease prepayments	**311**	171
Auditors' remuneration		
– audit services	**320**	260
– other services	**106**	96
Operating leases charges in respect of land and buildings	**659**	75
Other operating expenses		
– amortisation of goodwill	**–**	306
– impairment loss on goodwill	**479**	1,531
– exploration costs incurred for a potential mining project	**1,188**	2,851

10. INCOME TAX EXPENSE

(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 (2004: 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 incurred tax losses for the year.

10. INCOME TAX EXPENSE *(cont'd)*

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

	2005		(Restated) 2004	
	HK$'000	**%**	HK$'000	%
Loss before income tax	**(19,678)**		(18,786)	
Notional tax on loss before income tax, calculated at the rates applicable to loss in the countries concerned	**(4,408)**	**22.4**	(4,315)	23.0
Tax effect of non-deductible expenses	**3,155**	**(16.0)**	2,340	(12.5)
Tax effect of non-taxable revenue	**(36)**	**0.2**	(20)	0.1
Tax effect of unused tax losses not recognised	**1,289**	**(6.6)**	1,995	(10.6)
Income tax expense	**–**	**–**	–	–

Hong Kong profits tax is calculated at 17.5% (2004: 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.

11. LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year attributable to the equity holders of the Company of HK$14,020,000 (2004: HK$14,741,000 as restated), a loss of HK$6,462,000 (2004: HK$6,061,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to equity holders of the Company of HK$14,020,000 (2004: HK$14,741,000 as restated) and on 2,080,800,000 (2004: 2,080,800,000) ordinary shares in issue during the year.

No diluted loss per share has been presented as the Company did not have any potential ordinary shares for both 2004 and 2005.

13. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2005	2004
	HK$'000	HK$'000
Wages and salaries	**8,021**	6,103
Unutilised annual leave	**19**	40
Contributions to retirement benefits schemes	**90**	174
	8,130	6,317
Less: Wages and salaries capitalised to construction in progress	**(487)**	–
	7,643	6,317

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Executive directors and non-executive directors

	2005				2004			
	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors								
Mr. Wong Lik Ping	–	1,375	12	1,387	–	1,348	12	1,360
Mr. So Kwok Hoo	–	1,118	12	1,130	–	1,118	12	1,130
Mr. Lee King Luk	–	–	–	–	–	–	–	–
Independent non-executive directors								
Mr. Kee Wah Sze	60	–	–	60	60	–	–	60
Mr. Choi Wai Yin	60	–	–	60	30	–	–	30
Mr. Chan Pat Lam*	60	–	–	60	–	–	–	–
Mr. Ng Ching Wo*	–	–	–	–	60	–	–	60
	180	2,493	24	2,697	150	2,466	24	2,640

* Mr. Chan Pat Lam was appointed on 31 December 2004 and Mr. Ng Ching Wo resigned on 31 December 2004

No directors waived any emoluments in respect of the year ended 31 December 2005 (2004: NIL).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,356	1,560
Contributions to retirement benefits schemes	31	36
	1,387	1,596

The emoluments of the three (2004: three) individuals with the highest emoluments are within the following band:

	2005 Number of individuals	2004 Number of individuals
Emolument bands		
Nil – HK$1,000,000	3	3

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: NIL).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Construction in progress HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2004								
Cost (restated)	–	4,930	–	696	275	91	600	6,592
Accumulated depreciation (restated)	–	(760)	–	(367)	(207)	(76)	(600)	(2,010)
Net book amount (restated)	–	4,170	–	329	68	15	–	4,582
Year ended 31 December 2004								
Opening net book amount (restated)	–	4,170	–	329	68	15	–	4,582
Acquisition of subsidiaries (restated)	3,309	2,635	3,021	–	45	4	5,184	14,198
Additions	50,453	–	88	–	48	–	112	50,701
Disposals	–	–	–	–	–	–	(64)	(64)
Depreciation (restated)	–	(323)	(180)	(232)	(28)	(5)	(888)	(1,656)
Closing net book amount (restated)	53,762	6,482	2,929	97	133	14	4,344	67,761
At 31 December 2004								
Cost (restated)	53,762	7,677	3,229	696	373	95	6,970	72,802
Accumulated depreciation (restated)	–	(1,195)	(300)	(599)	(240)	(81)	(2,626)	(5,041)
Net book amount (restated)	53,762	6,482	2,929	97	133	14	4,344	67,761
Year ended 31 December 2005								
Opening net book amount (restated)	**53,762**	**6,482**	**2,929**	**97**	**133**	**14**	**4,344**	**67,761**
Exchange differences	**1,117**	**52**	**57**	**–**	**2**	**–**	**73**	**1,301**
Acquisition of a subsidiary	**100,117**	**–**	**445**	**–**	**62**	**–**	**491**	**101,115**
Additions	**54,554**	**–**	**364**	**–**	**54**	**–**	**556**	**55,528**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation	**–**	**(385)**	**(354)**	**(97)**	**(49)**	**(5)**	**(1,751)**	**(2,641)**
Closing net book amount	**209,550**	**6,149**	**3,441**	**–**	**202**	**9**	**3,713**	**223,064**
At 31 December 2005								
Cost	**209,550**	**7,735**	**4,131**	**696**	**496**	**96**	**7,590**	**230,294**
Accumulated depreciation	**–**	**(1,586)**	**(690)**	**(696)**	**(294)**	**(87)**	**(3,877)**	**(7,230)**
Net book amount	**209,550**	**6,149**	**3,441**	**–**	**202**	**9**	**3,713**	**223,064**

During the year, depreciation of HK$53,000 (2004: NIL) was capitalised to construction in progress.

At 31 December 2005, the Group's bank loan of HK$ 22,898,000 (2004: HK$ 37,622,000) was secured by the Group's certain construction in progress with a carrying value of HK$47,764,000 (2004: HK$26,882,000) (Note 27).

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

Company

	Leasehold improvements HK$'000	**Office equipment** HK$'000	**Furniture and fixtures** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2004					
Cost	696	266	91	601	1,654
Accumulated depreciation	(368)	(198)	(76)	(601)	(1,243)
Net book amount	328	68	15	–	411
Year ended 31 December 2004					
Opening net book amount	328	68	15	–	411
Depreciation	(231)	(20)	(5)	–	(256)
Closing net book amount	97	48	10	–	155
At 31 December 2004					
Cost	696	266	91	601	1,654
Accumulated depreciation	(599)	(218)	(81)	(601)	(1,499)
Net book amount	97	48	10	–	155
Year ended 31 December 2005					
Opening net book amount	**97**	**48**	**10**	**–**	**155**
Additions	**–**	**52**	**–**	**–**	**52**
Disposals	–	–	–	–	–
Depreciation	**(97)**	**(23)**	**(4)**	**–**	**(124)**
Closing net book amount	**–**	**77**	**6**	**–**	**83**
At 31 December 2005					
Cost	**696**	**318**	**91**	**–**	**1,105**
Accumulated depreciation	**(696)**	**(241)**	**(85)**	**–**	**(1,022)**
Net book amount	**–**	**77**	**6**	**–**	**83**

16. LEASEHOLD LAND AND LAND USE RIGHTS-GROUP

The Group's interests in leasehold land and land use rights represent prepaid land lease payments under operating leases. Their net book values are analysed as follows:

	2005 HK$'000	(Restated) 2004 HK$'000
In Hong Kong held on:		
Leases of over 50 years	**4,495**	4,602
Outside Hong Kong held on:		
Leases of between 10 to 50 years	**12,593**	3,782
	17,088	8,384

	2005 HK$'000	(Restated) 2004 HK$'000
Opening net carrying amount	**8,384**	4,709
Exchange differences	**77**	–
Additions	**1,605**	–
Acquisition of subsidiaries	**7,333**	3,846
Amortisation of operating lease prepayments	**(311)**	(171)
Closing net carrying amount	**17,088**	8,384

17. GOODWILL-GROUP

The main changes in the carrying amounts of goodwill result from the acquisition of Shanxi Yao Zin as well as the impairment loss of recognised goodwill. The net carrying amount of goodwill is analysed as follows:

	2005 HK$'000	2004 HK$'000
Cost		
At 1 January	**1,837**	–
Opening balance adjustment to eliminate accumulated amortisation	**(306)**	–
	1,531	–
Arising on acquisition of subsidiaries (Note 37)	**479**	1,837
At 31 December	**2,010**	1,837
Accumulated amortisation and impairment losses		
At 1 January	**(1,837)**	–
Eliminated against cost at 1 January	**306**	–
	(1,531)	–
Amortisation charge for the year	**–**	(306)
Impairment loss	**(479)**	(1,531)
At 31 December	**(2,010)**	(1,837)
Net carrying amount at 31 December	**–**	–

17. GOODWILL-GROUP *(cont'd)*

In 2004, positive goodwill was amortised on a straight-line basis over three years. The amortisation of goodwill for the year ended 31 December 2004 was included in "other operating expenses" in the consolidated income statement. With effect from 1 January 2005, the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 31 December 2004 was eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1 January 2005.

At the balance sheet date, the directors assessed the carrying amount of goodwill and considered it was impaired. Accordingly an impairment loss of HK$479,000 (2004: HK$1,531,000) has been charged to the consolidated income statement for the year.

18. INTEREST IN SUBSIDIARIES-COMPANY

	2005 HK$'000	2004 HK$'000
Investments at cost		
Unlisted shares	**22,256**	22,256
Less: Provision for impairment	**(22,256)**	(22,256)
	–	–

Particulars of the subsidiaries at 31 December 2005 are as follows:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operations**	**Particulars of issued share capital/ registered capital**	**Percentage of issued capital held by the Company 2005**	2004
Shanxi Jinshan Energy Limited ("Jinshan")*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB100,000,000	**65%**	65%
Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng")*	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB30,000,000	**45.5%#**	45.5%
Liulin Luenshan Coking Company Limited ("Luenshan")*	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB30,000,000	**42.25%#**	42.25%
Fushan Energy Group Limited	British Virgin Islands, limited liability company	Investment holding in the PRC	1 ordinary share of US$1 each	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Jewellery retailing and wholesaling in Hong Kong	2,000,000 ordinary shares of HK$1 each	**100%**	100%

18. INTEREST IN SUBSIDIARIES-COMPANY

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Percentage of issued capital held by the Company 2005	2004
Fu Hui Investments Limited	Hong Kong, limited liability company	Provision of financing arrangements in Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%
Jumbo Hall International Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%
New Honest Limited	British Virgin Islands, limited liability company	Investment holding in the PRC	1 ordinary share of US$1 each	**100%**	100%
Shanxi Yao Zin Coal and Coking Company Limited*	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB80,000,000 *(Note)*	**51%**	–
Maxease Limited	British Virgin Islands, limited liability company	Dormant	1 ordinary share of US$1 each	**100%**	100%
Full Bright International Limited	New York, U.S.A., limited liability company	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 as Jinshan holds more than half of the voting power of these companies and accordingly, are accounted for as subsidiaries of the Company.

Note: During the year, New Honest Limited, a wholly-owned subsidiary of the Company, increased its equity interests in Shanxi Yao Zin from 38% to 51% by acquiring an additional 13% equity interest in Shanxi Yao Zin. Accordingly, Shanxi Yao Zin, an associate of the Group as at 31 December 2004, became a subsidiary of the Company since then. The registered capital of Shanxi Yao Zin was increased from RMB40,000,000 to RMB80,000,000 during the year. The increase in the registered capital of RMB40,000,000 has not yet been injected to Shanxi Yao Zin by New Honest Limited and other minority equity holders as at 31 December 2005.

19. AMOUNTS DUE FROM SUBSIDIARIES-COMPANY

	2005 HK$'000	2004 HK$'000
Amount due from subsidiaries	**233,148**	213,355
Less: Provision for impairment	**(150,876)**	(150,917)
	82,272	62,438
Less: Portion due within one year included under current assets	**(82,272)**	–
Non-current portion included under non-current assets	**–**	62,438

19. AMOUNTS DUE FROM SUBSIDIARIES-COMPANY *(cont'd)*

At 31 December 2005, the amounts due from subsidiaries are unsecured, interest-free and repayable on demand. Accordingly, the amounts are classified as current assets.

At 31 December 2004, the amounts due from subsidiaries were unsecured, interest-free and not repayable within twelve months from the balance sheet date. Accordingly, the amounts were classified as non-current assets.

The Directors consider that the carrying amounts of the amounts due from subsidiaries approximate their fair values.

20. INTEREST IN ASSOCIATES

	Group		**Company**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Unlisted shares, at cost	**–**	–	**4**	4
Share of net assets	**–**	–	**–**	–
Amount due from an associate	**3,739**	3,739	**3,739**	3,739
	3,739	3,739	**3,743**	3,743
Less: Provision for impairment	**(3,739)**	(3,739)	**(3,743)**	(3,743)
	–	–	**–**	–

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

Particulars of the associates at 31 December 2005 are as follows:

Name	**Place of incorporation**	**Principal activities and place of operations**	**Particulars of issued share capital**	**Assets**	**Liabilities**	**Revenues**	**Loss**	**% Interest held**	
				HK$'000	HK$'000	HK$'000	HK$'000	**2005**	2004
Real Wide Limited	Hong Kong	PRC (in voluntary liquidation)	100 ordinary shares of HK$1 each	–	–	–	–	**45%**	45%

21. PREPAYMENTS AND DEPOSITS

Included in prepayments and deposits of the Group were (a) prepayment of HK$48,005,000 (2004: HK$23,514,000) paid by a subsidiary for a potential mining project; and (b) prepayments of HK$72,619,000 (2004: HK$67,894,000) paid by another two subsidiaries (2004: one subsidiary) for the construction and installation of certain property, plant and machinery in relation to two (2004: one) coking coal plants.

22. INVENTORIES

	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Raw materials-Jewellery	**100,284**	100,284	**93,801**	93,801
Finished goods-Jewellery	**68,342**	68,371	**64,439**	64,468
	168,626	168,655	**158,240**	158,269
Less: Provision for inventories	**(168,626)**	(168,655)	**(158,240)**	(158,269)
	–	–	**–**	–

During the year, the Group reversed HK$29,000 (2004: HK$1,715,000) being part of inventory write down made in prior years that was subsequently not required as the inventory was sold. The amount reversed has been included in "cost of sales" (Note 9) in the consolidated income statement.

23. TRADE RECEIVABLES

General credit terms of the Group range from 60 to 90 days. At 31 December 2005, the ageing analysis of the trade receivables (net of specific provision for impairment of receivables) are as follows:

	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
0 – 30 days	**6,819**	502	**14**	502
31 – 60 days	**–**	–	**–**	–
61 – 90 days	**–**	–	**–**	–
Over 90 days	**34**	–	**–**	–
	6,853	502	**14**	502

Included in trade receivables of the Group amounted to HK$6,839,000 (2004: NIL) denominated in Renminbi ("RMB").

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Cash at banks and on hand	**3,069**	9,056	**1,147**	1,336
Short term bank deposits	**7,518**	27,275	**7,518**	22,572
	10,587	36,331	**8,665**	23,908
Pledged bank deposits*	**–**	(4,703)		
	10,587	31,628		

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

24. CASH AND CASH EQUIVALENTS *(cont'd)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of one week to one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates ranged from 0.54% to 4.02%.

Included in cash and cash equivalents of the Group are cash and bank balances of HK$907,000 (2004: HK$11,308,000) denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency.

25. TRADE PAYABLES

At 31 December 2005, the ageing analysis of the trade payables are as follows:

	Group		**Company**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
0 – 30 days	**6,326**	1,152	**–**	–

As at balance sheet date, all of the trade payables of the Group were denominated in RMB.

26. RETIREMENT BENEFITS SCHEMES

Include in other payables were current obligations to various retirement benefits schemes (defined contribution plans) for Hong Kong and PRC employees:

	Group		**Company**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Current obligations on:				
– Retirement benefits schemes:				
defined contribution plans	**107**	91	**13**	15

There were no forfeited contributions during the year (2004: NIL).

27. BANK LOAN

At 31 December 2005, the bank loan is repayable as follows:

	Group		**Company**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Within 1 year	**22,898**	37,622	**–**	–

At 31 December 2005, the bank loan of HK$22,898,000 (2004: HK$37,622,000) denominated in RMB was secured by certain construction in progress of a subsidiary with a carrying value of HK$47,764,000 (2004: HK$26,882,000) (Note 15) and was guaranteed by the ultimate holding company, China Merit Limited and Jinshan (Note 41). The loan was interest bearing at a fixed rate of 8% per annum.

28. OTHER LOANS

At 31 December 2005, other loans are repayable as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Current portion – within 1 year	**1,633**	–	**–**	–
Non-current portion – between 1 and 2 years	**116,015**	–	**–**	–
	117,648	–	**–**	–

At 31 December 2005, other loans, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 5.49% to 10.20% per annum. As at 31 December 2005, interest payables of HK$3,684,000 (2004: NIL) were accrued and are repayable together with the principal debts on the maturity dates.

29. AMOUNT DUE TO A MINORITY EQUITY HOLDER OF A SUBSIDIARY

The amount denominated in RMB, is unsecured, interest-free and repayable on demand.

30. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured, interest-free and repayable on 14 August 2007.

31. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies, denominated in RMB, in which a substantial equity holder of the Company who is also a director of the Company has beneficial interest, are unsecured, interest bearing at a fixed rate of 7.00% per annum (2004: interest free) and are repayable on 31 March 2007. During the year ended 31 December 2005, interest expenses of HK$869,000 (2004: NIL) were recognised in the financial statements. As at 31 December 2005, interest payables of HK$869,000 (2004: NIL) were accrued and are repayable together with the principal debts on 31 March 2007.

32. AMOUNTS DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES

The amounts of HK$17,282,000 due to minority equity holders of a subsidiary are repayable on 31 March 2007. The remaining amounts of HK$37,705,000 due to minority equity holders of another subsidiary are repayable one year after production commences. (As at 31 December 2005, production had not yet commenced). These amounts due to minority equity holders of subsidiaries, denominated in RMB, are unsecured, interest bearing at fixed rates ranging from 6.00% to 7.00% per annum. During the year ended 31 December 2005, interest expenses of HK$2,918,000 (2004: NIL) were recognised in the financial statements. As at 31 December 2005, interest payables of HK$2,918,000 (2004: NIL) were accrued and are repayable together with the principal debts on the maturity dates.

33. SHARE CAPITAL

	Number of shares			
	2005	2004	**2005 HK$'000**	2004 HK$'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

34. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 20 June 2003, the equity holders of the Company approved the adoption of a new option scheme (the "Scheme") 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 but not limited to eligible employees and directors of any member of the Group, who may contribute to the growth and development of the Group. The Scheme shall be valid and effective for a period of ten years ending on 19 June 2013, after which no further options will be granted.

The exercise price of options is to be determined by the Directors and is at least 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 consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date to be determined by the Directors, but in any event not more than 10 years from the date of grant. Options granted to a substantial equity holder or any independent non-executives of the Company in excess of 0.1% of the issued capital of the Company and with an aggregate value in excess of HK$5 million must be approved in advance by the equity holders of the Company.

The total number of securities available for issue under the share option scheme as at 31 December 2005 was 208,080,000 which represented 10% of the issued share capital of the Company at 31 December 2005. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

No share options have been granted since the adoption of the Scheme on 20 June 2003.

35. RESERVES

Group

	Share premium HK$'000	**Accumulated losses** HK$'000	**Translation reserves** HK$'000	**Total** HK$'000
At 1 January 2004, as previously reported	399,169	(507,349)	(118)	(108,298)
Effect of changes in accounting policy-HKAS 17	–	879	–	879
At 1 January 2004, as restated	399,169	(506,470)	(118)	(107,419)
Loss for the year, as restated	–	(14,741)	–	(14,741)
At 31 December 2004, as restated	399,169	(521,211)	(118)	(122,160)
At 31 December 2004, as previously reported	399,169	(522,057)	(118)	(123,006)
Effect of changes in accounting policy-HKAS 17	–	846	–	846
At 1 January 2005, as restated	**399,169**	**(521,211)**	**(118)**	**(122,160)**
Exchange difference on translation of the financial statements of foreign entities	**–**	**–**	**1,285**	**1,285**
Loss for the year	**–**	**(14,020)**	**–**	**(14,020)**
At 31 December 2005	**399,169**	**(535,231)**	**1,167**	**(134,895)**

35. RESERVES *(cont'd)*

Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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)
At 1 January 2005	**399,169**	**(520,450)**	**(121,281)**
Loss for the year	**–**	**(6,462)**	**(6,462)**
At 31 December 2005	**399,169**	**(526,912)**	**(127,743)**

36. DEFERRED TAX

As at 31 December 2005, no deferred tax liabilities have been provided (2004: NIL) as the amount involved was immaterial and no deferred tax assets have been recognised (2004: 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	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Deductible temporary differences	**29,277**	23,516	**425**	435
Tax losses	**186,016**	175,078	**146,151**	139,439
	215,293	198,594	**146,576**	139,874

The tax losses of the Group of approximately HK$5,658,000 (2004: HK$1,432,000) will expire in four to five years while tax losses of approximately HK$180,358,000 (2004: HK$173,646,000) have no expiry date.

The tax losses of the Company of approximately HK$146,151,000 (2004: HK$139,439,000) have no expiry date.

37. BUSINESS COMBINATIONS-GROUP

On 11 August 2005, New Honest Limited, a wholly-owned subsidiary of the Company, acquired a further 13% equity interest in Shanxi Yao Zin which is engaged in production and sales of coal products in the PRC, increasing its equity interest from 38% to 51%, at a consideration of approximately HK$4,995,000 which was satisfied by cash. Accordingly, Shanxi Yao Zin became a subsidiary of the Company on 11 August 2005.

On 8 June 2004, Fushan Energy Group Limited, a wholly-owned subsidiary of the Company, acquired a further 20% equity interest in Jinshan which is engaged in production and sales of coal products in the PRC through its two subsidiaries, increasing its equity interest 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.

37. BUSINESS COMBINATIONS-GROUP *(cont'd)*

Details of net assets acquired and goodwill arising on such acquisitions are as follows:

	2005 HK$'000	(Restated) 2004 HK$'000
Net assets acquired		
Property, plant and equipment	**101,115**	14,198
Prepayments for construction and installation of property, plant and equipment and deposit for a potential mining project	**31,717**	49,699
Leasehold land and land use rights	**7,333**	3,846
Prepayments, deposits and other receivables	**1,343**	22,701
Cash at bank and on hand	**706**	5,245
Other payables	**(9,683)**	(161)
Other loans	**(62,886)**	–
Amounts due to minority equity holders	**(32,810)**	–
Interest payables	**(2,099)**	–
Net assets	**34,736**	95,528
Minority interests	**(17,020)**	(40,154)
Share of net assets of associates at the date it became a subsidiary	**(13,200)**	(38,336)
Net assets acquired	**4,516**	17,038
Goodwill arising on acquisition (Note 17)	**479**	1,837
Total consideration paid, satisfied by cash	**4,995**	18,875
Less: Cash at bank and on hand of the subsidiaries acquired	**(706)**	(5,245)
Cash outflow on acquisition	**4,289**	13,630

* The carrying amounts of net assets acquired approximate to their fair value.

Since its acquisition, the acquired subsidiary did not contribute to the Group's turnover for year ended 31 December 2005 (2004: NIL). The acquired subsidiary contributed loss of HK$2,490,000 to the consolidated loss for the year ended 31 December 2005 (2004: HK$7,553,000). If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK$10,232,000 and consolidated loss for the year would have been HK$21,907,000.

38. MAJOR NON-CASH TRANSACTIONS-GROUP

	2005 HK$'000	2004 HK$'000
Consideration for purchase of property, plant and equipment outstanding and unpaid included in		
– other payables	6,049	15,773
– bills payable	–	4,703
Proceeds from new other loan reclassified from other payables	9,601	–
	15,650	20,476

39. CAPITAL COMMITMENTS

Capital commitments outstanding of the Group and Company at 31 December 2005 not provided for in the financial statements are as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Contracted but not provided for:				
– capital expenditure in respect of acquisition of property, plant and equipment	70,364	56,753	–	–
– capital expenditure in respect of exploration and design fees for a potential mining project	6,509	1,270	–	–
– capital investment in an associate	–	17,799	–	–
	76,873	75,822	–	–

40. OPERATING LEASE COMMITMENTS

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Within one year	633	279	–	–
In the second to fifth years	2,533	615	–	–
After five years	25,640	6,728	–	–
	28,806	7,622	–	–

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

41. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) 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$22,898,0000 (2004: HK$37,622,000) (Note 27) in favour of one of the subsidiaries of the Company at nil consideration. In addition, China Merit Limited granted an advance of HK$10,000,000 (2004: NIL) to the Company on 11 August 2005 (Note 30). Details of other borrowings from related parties are disclosed in notes 29, 31 and 32 to the financial statements.

(b) Details of key management personnel compensation are set out in note 14 to the financial statements.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated by the board of directors, and focuses on securing the Group's short to medium term cash flows by minimizing the exposure to financial markets. The most significant risks to which the Group is exposed to are described below.

(a) Interest rate risk

The Group currently has no significant interest rate risk as the Group has no borrowings which bear floating interest rates.

(b) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. The Group only trades with customers after careful assessment of their creditworthness and financial background.

(c) Foreign currency risk

The Group has transaction currency exposures arising from sales, purchases, capital and other expenditures in RMB which is different from the Company's functional currency. The Group did not enter into foreign currency forward contracts to manage the Group's exposure to movement in foreign currency exchange rates on specific transactions.

(d) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

43. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, during January 2006, the Group has drawn down a banking facility denominated in RMB amounting to HK$48,005,000 from a financial institution. The banking facility will be used to finance the prepayment for a potential mining project. The Group and a minority equity holder of a subsidiary have given joint-guarantees to secure the banking facility.

(b) On 23 January 2006, the Group entered into a new loan agreement for a loan denominated in RMB of approximately HK$48,005,000 repayable in one year with an independent third party, ("the lender"). The Group and two subsidiaries of a minority equity holder of the Group have given joint guarantees for an amount of approximately HK$48,005,000 to a financial institution in favour of the lender. The proceeds of the loan will be used to repay a short term bank loan and as an operating cashflow of the Group.