Notes to the Financial Statements

For the year ended 31 December 2006

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 2006 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 coal and coke products and side products and sales of jewellery products. The principal places of the business are in Hong Kong and the People's Republic of China (the "PRC"). During the year, the Directors decided to cease the business of jewellery due to a strategic decision to focus the direction of the Group to the energy sector. The sales clearance of jewellery was completed on 28 February 2007.

The financial statements on pages 20 to 61 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also 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 2006 were approved for issue by the board of directors on 23 April 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group.

The adoption of these new and amended HKFRSs did not result in significant changes in the Group's and Company's accounting policies but gave rise to additional disclosures.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

Amendment to HKAS 1	"Presentation of Financial Statements" – Capital Disclosures"[1]
HKFRS 7	"Financial Instruments: Disclosures"[1]
HKFRS 8	"Operating Segments"[2]
HK(IFRIC) Interpretation 7	"Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies"[3]
HK(IFRIC) Interpretation 8	"Scope of HKFRS 2"[4]
HK(IFRIC) Interpretation 9	"Reassessment of Embedded Derivatives"[5]
HK(IFRIC) Interpretation 10	"Interim Financial Reporting and Impairment"[6]
HK(IFRIC) Interpretation 11	"Group and Treasury Share Transactions"[7]
HK(IFRIC) Interpretation 12	"Services Concession Arrangements"[8]

2. ADOPTION OF NEW OR AMENDED HKFRSs *(cont'd)*

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

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 which are stated at fair values. 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$164,925,000 (2005: HK$34,124,000) as at 31 December 2006. In the opinion of the directors, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as the Company entered into the Placing Agreement and Subscription Agreement on 15 March 2007, which were completed on 2 April 2007 and 20 April 2007 respectively to raise total funds of approximately HK$720,000,000 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 2007. Accordingly, the financial statements have been prepared on a going concern basis. The details of the transactions are set out in note 44 to the financial statements and in the announcements of the Company dated 20 March 2007 and 2 April 2007.

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as "the Group") made up to 31 December each year.

(c) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying 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 fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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

(c) Subsidiaries *(cont'd)*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealized 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.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

(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 investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

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

(d) Associates *(cont'd)*

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see Note 3 (k)) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

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. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investment in associates are 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.

(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 individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities 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 individual financial statements of foreign operations, 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 Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserves in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

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

(e) Foreign currency translation *(cont'd)*

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 income statement as part of the gain or loss on sale.

(f) Income and expense recognition

Revenue comprises the fair value of the consideration received or receivable 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 the significant risks to the customer and collectibility of the related receivables is reasonably assured.

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 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 represents the excess of the cost of a business combination or an investment in a subsidiary, an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment in the case of goodwill in subsidiaries. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the Group's interest in the associate or jointly controlled entity, and is assessed for impairment as part of the investment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a subsidiary, an associate or a jointly controlled entity is recognised immediately in profit or loss.

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 represents 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.

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

(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 retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the 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 costs, such as repairs and maintenance are charged to the 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, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a 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 the goodwill is monitored for internal management purpose.

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 unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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 favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(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 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 subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

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.

At each balance sheet date, financial assets carried at amortised cost other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on trades and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

(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.

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

(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 claim 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 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.

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 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 with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(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.

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

(r) Share-based compensation

All share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and other persons.

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

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

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share-based compensation reserve.

(s) Retirement benefit 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 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 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 ("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 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)*

(t) Financial liabilities

The Group's financial liabilities include bank loan, 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 provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the 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 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 method.

(u) 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 where the assets are located.

(v) Financial guarantees issued

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

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

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

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

(w) 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 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. Revenue recognised during the year is as follows:

	2006 HK$'000	2005 HK$'000
Sales of coal products	**9,534**	10,230
Sales of jewellery products	**1,001**	2
Revenue	**10,535**	10,232

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**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Business segments:				
Sales of coal products	**9,534**	10,230	**933**	984
Production of coke products*	**–**	–	**(17,732)**	(12,116)
Sales of jewellery products	**1,001**	2	**1,001**	2
Unallocated expenses	**–**	–	**(20,288)**	(6,980)
	10,535	10,232	**(36,086)**	(18,110)
Finance costs			**(9,028)**	(202)
Share of results of associates			**–**	(1,366)
Loss for the year			**(45,114)**	(19,678)

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 2006 by principal activities is as follows:

	Assets		Liabilities		Capital expenditure	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Business segments:						
Sales of coal products	**2,495**	8,243	**–**	6,326	**–**	–
Production of coke products*	**503,022**	357,074	**407,645**	239,286	**26,163**	156,056
Sales of jewellery products	**–**	–	**–**	–	**–**	–
Unallocated	**11,587**	18,482	**9,879**	10,726	**4**	587
	517,104	383,799	**417,524**	256,338	**26,167**	156,643

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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Business segments:						
Sales of coal products	**–**	–	**–**	–	**–**	–
Production of coke products*	**2,417**	2,181	**323**	204	**–**	479
Sales of jewellery products	**–**	–	**–**	–	**–**	–
Unallocated	**406**	460	**107**	107	–	–
	2,823	2,641	**430**	311	**–**	479
Less: Depreciation capitalised in construction in progress	**(180)**	(53)	**–**	–	**–**	–
	2,643	2,588	**430**	311	**–**	479

* *Not yet commenced operation*

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 2006 and capital expenditure incurred for the year by principal markets is as follows:

	Revenue		Segment results		Total assets		Capital expenditure	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Principal markets								
PRC	**9,534**	10,230	**(17,022)**	(11,132)	**505,517**	365,317	**26,163**	156,056
Hong Kong	**1,001**	2	**(19,064)**	(6,978)	**11,587**	18,482	**4**	587
	10,535	10,232	**(36,086)**	(18,110)	**517,104**	383,799	**26,167**	156,643

During the year, the Directors decided to cease the business of jewellery ("the jewellery segment") due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery was completed on 28 February 2007. As at 31 December 2006, other than the intra-company balances, no other assets and liabilities remained in relation to the jewellery segment. As a result, no gain or loss arose on cessation of the jewellery segment. During the year ended 31 December 2006, the business of jewellery sales had cash inflows from operating activities of HK$1,001,000 (2005: HK$2,000), neither cash flows from investing activities nor from financing activities were generated from the jewellery segment for 2006 and 2005.

7. OTHER OPERATING INCOME

	2006 HK$'000	2005 HK$'000
Bank interest income	**275**	295
Gain on disposal of property, plant and equipment	**–**	40
	275	335

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest charges on:		
Bank loans and overdrafts repayable within five years	**3,295**	2,877
Other loans wholly repayable within five years	**18,534**	6,254
Total borrowing costs	**21,829**	9,131
Less: interest capitalised to construction in progress*	**(12,801)**	(8,929)
	9,028	202

* *The borrowing costs have been capitalised at rates ranging from 6.00% to 8.00% per annum (2005: 6.00% to 8.00% per annum)*

9. LOSS BEFORE INCOME TAX

	2006 HK$'000	2005 HK$'000
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	**9,602**	9,275
Less: Provision for inventories written back upon disposal	**(1,001)**	(29)
Cost of sales	**8,601**	9,246
Staff costs *(including directors' remuneration and retirement benefits scheme contributions) (note 13)*	**21,007**	7,643
Depreciation of property, plant and equipment	**2,823**	2,641
Less: Amount capitalised to construction in progress	**(180)**	(53)
	2,643	2,588
Amortisation of operating lease prepayments	**430**	311
Auditors' remuneration		
– audit services	**380**	320
– other services	**10**	106
Operating leases charges in respect of land and buildings	**659**	659
Other operating expenses		
– impairment loss on goodwill	**–**	479
– exploration costs incurred for a potential mining project	**1,245**	1,188

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 (2005: 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.

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

	2006		2005	
	HK$'000	**%**	HK$'000	%
Loss before income tax	**(45,114)**		(19,678)	
Notional tax on loss before income tax, calculated at the rates applicable to loss in the countries concerned	**(11,804)**	**26.2**	(4,408)	22.4
Tax effect of non-deductible expenses	**10,467**	**(23.2)**	3,155	(16.0)
Tax effect of non-taxable revenue	**(332)**	**0.7**	(36)	0.2
Tax effect of temporary differences not recognised	**(19)**	**–**	–	–
Tax effect of unused tax losses not recognised	**1,688**	**(3.7)**	1,289	(6.6)
Income tax expense	**–**	**–**	–	–

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit/adjusted loss for the year. Taxation for overseas subsidiaries 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$30,988,000 (2005: HK$14,020,000), a loss of HK$18,773,000 (2005: HK$6,462,000) 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$30,988,000 (2005: HK$14,020,000) and on 2,080,800,000 (2005: 2,080,800,000) ordinary shares in issue during the year.

The Company completed the Placing Agreement and the Subscription Agreement on 2 April 2007 and 20 April 2007 respectively. As a result, the Company's issued ordinary shares and potential ordinary shares have increased. The details of the transactions are set out in note 44.

Diluted loss per share for the year ended 31 December 2006 was not presented because the impact of the exercise of the share options was anti-dilutive. The Company did not have any dilutive potential ordinary shares for the year ended 31 December 2005.

13. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2006 HK$'000	2005 HK$'000
Wages and salaries	**8,448**	8,021
Share-based compensation (note 34)	**12,953**	–
Unutilised annual leave	**25**	19
Contributions to retirement benefits scheme	**66**	90
	21,492	8,130
Less: Wages and salaries capitalised to construction in progress	**(485)**	(487)
	21,007	7,643

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) *Directors' emoluments*

Executive directors and non-executive directors

	2006				2005			
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors								
Mr. Wong Lik Ping	–	1,740	12	1,752	–	1,375	12	1,387
Mr. So Kwok Hoo	–	2,239	12	2,251	–	1,118	12	1,130
Mr. Lee King Luk	–	–	–	–	–	–	–	–
Independent non-executive directors								
Mr. Kee Wah Sze	60	138	–	198	60	–	–	60
Mr. Choi Wai Yin	60	138	–	198	60	–	–	60
Mr. Chan Pat Lam	60	138	–	198	60	–	–	60
	180	4,393	24	4,597	180	2,493	24	2,697

No directors waived any emoluments in respect of the year ended 31 December 2006 (2005: NIL).

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(cont'd)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

	2006 **HK$'000**	2005 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,719**	1,356
Contributions to retirement benefit schemes	**24**	31
	2,743	1,387

The emoluments of the three (2005: three) individuals with the highest emoluments are within the following band:

	2006 **Number of individuals**	2005 Number of individuals
Emolument bands		
Nil – HK$1,000,000	**2**	3
HK$1,000,000 – HK$1,500,000	**1**	–

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 (2005: 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 2005								
Cost	53,762	7,677	3,229	696	373	95	6,970	72,802
Accumulated depreciation	–	(1,195)	(300)	(599)	(240)	(81)	(2,626)	(5,041)
Net book amount	53,762	6,482	2,929	97	133	14	4,344	67,761
Year ended 31 December 2005								
Opening net book amount	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
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
Year ended 31 December 2006								
Opening net book amount	**209,550**	**6,149**	**3,441**	**–**	**202**	**9**	**3,713**	**223,064**
Exchange differences	**8,545**	**97**	**130**	**–**	**4**	**–**	**92**	**8,868**
Additions	**24,607**	**–**	**1,532**	**–**	**23**	**5**	**–**	**26,167**
Depreciation	**–**	**(389)**	**(443)**	**–**	**(58)**	**(6)**	**(1,927)**	**(2,823)**
Closing net book amount	**242,702**	**5,857**	**4,660**	**–**	**171**	**8**	**1,878**	**255,276**
At 31 December 2006								
Cost	**242,702**	**7,850**	**5,831**	**696**	**527**	**101**	**7,876**	**265,583**
Accumulated depreciation	**–**	**(1,993)**	**(1,171)**	**(696)**	**(356)**	**(93)**	**(5,998)**	**(10,307)**
Net book amount	**242,702**	**5,857**	**4,660**	**–**	**171**	**8**	**1,878**	**255,276**

During the year, depreciation of HK$180,000 (2005: HK$53,000) was capitalised to construction in progress.

At 31 December 2005, the Group's bank loan in the amount of HK$22,898,000 was secured by certain of the Group's construction in progress with a carrying value of HK$47,764,000 (Note 27). This bank loan was repaid during the year ended 31 December 2006.

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 2005					
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
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
Year ended 31 December 2006					
Opening net book amount	**–**	**77**	**6**	**–**	**83**
Additions	**–**	**2**	**2**	**–**	**4**
Depreciation	**–**	**(22)**	**(4)**	**–**	**(26)**
Closing net book amount	**–**	**57**	**4**	**–**	**61**
At 31 December 2006					
Cost	**696**	**320**	**93**	**–**	**1,109**
Accumulated depreciation	**(696)**	**(263)**	**(89)**	**–**	**(1,048)**
Net book amount	**–**	**57**	**4**	**–**	**61**

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:

	2006 HK$'000	2005 HK$'000
In Hong Kong held on:		
Leases of over 50 years	4,388	4,495
Outside Hong Kong held on:		
Leases of between 10 to 50 years	12,776	12,593
	17,164	17,088

	2006 HK$'000	2005 HK$'000
Opening net carrying amount	17,088	8,384
Exchange differences	506	77
Additions	–	1,605
Acquisition of subsidiaries	–	7,333
Amortisation of operating lease prepayments	(430)	(311)
Closing net carrying amount	17,164	17,088

As at 31 December 2006, the leasehold land and land use rights included certain properties in PRC with a net book value of approximately HK$3,764,000 (2005: HK$3,888,000) for which the Group is still in the process of obtaining the land use rights and the building ownership certificates. Once the Group has obtained all relevant certificates, the Group has the right to assign, lease or mortgage these properties.

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:

	2006 HK$'000	2005 HK$'000
Cost		
At 1 January	**2,010**	1,837
Opening balance adjustment to eliminate accumulated amortisation	**–**	(306)
	2,010	1,531
Arising on acquisition of subsidiaries *(note 37)*	**–**	479
At 31 December	**2,010**	2,010
Accumulated amortisation and impairment losses		
At 1 January	**(2,010)**	(1,837)
Eliminated against cost at 1 January	**–**	306
	(2,010)	(1,531)
Impairment loss	**–**	(479)
At 31 December	**(2,010)**	(2,010)
Net carrying amount at 31 December	**–**	–

Prior to 2005, positive goodwill was amortised on a straight-line basis over three years. 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 31 December 2005, the directors assessed the carrying amount of goodwill and considered it was impaired. Accordingly an impairment loss of HK$479,000 was charged to the consolidated income statement for the year of 2005.

18. INTEREST IN SUBSIDIARIES-COMPANY

	2006 HK$'000	2005 HK$'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 2006 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 2006	2005
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 coke 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 coke 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%
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%

18. INTEREST IN SUBSIDIARIES-COMPANY *(cont'd)*

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 2006	2005
Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin")	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB80,000,000 ***(Note)***	**51%**	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: The registered capital of Shanxi Yao Zin was increased from RMB40,000,000 to RMB80,000,000 during the year of 2005. 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 shareholders as at 31 December 2006.

19. AMOUNTS DUE FROM SUBSIDIARIES-COMPANY

	2006 HK$'000	2005 HK$'000
Amounts due from subsidiaries	**232,660**	233,148
Less: Provision for impairment	**(150,654)**	(150,876)
	82,006	82,272
Less: Portion due within one year included under current assets	**(82,006)**	(82,272)
Non-current portion included under non-current assets	**–**	–

At 31 December 2006, the amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

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

20. INTEREST IN AN ASSOCIATE

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'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 associate at 31 December 2006 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Assets HK$'000	Liabilities HK$'000	Revenues HK$'000	Loss HK$'000	% Interest held 2006	2005
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$144,138,000 (2005: HK$48,005,000) paid by a subsidiary for a potential mining project; and (b) prepayments of HK$83,796,000 (2005: HK$72,619,000) paid by another two subsidiaries (2005: two subsidiaries) for the construction and installation of certain property, plant and machinery in relation to two coke plants.

22. INVENTORIES

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Raw materials-Jewellery	**89,122**	100,284	**89,122**	93,801
Finished goods-Jewellery	**–**	68,342	**–**	64,439
	89,122	168,626	**89,122**	158,240
Less: Provision for inventories	**(89,122)**	(168,626)	**(89,122)**	(158,240)
	–	–	**–**	–

During the year, the Group reversed provision for inventories of HK$78,503,000 (2005: NIL) as the related inventories for which the provision was made, were disposed of during the year.

23. TRADE RECEIVABLES

General credit terms of the Group range from 60 to 90 days. At 31 December 2006, the ageing analysis of the trade receivables (net of specific provision for impairment of receivables) is as follows:

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
0 – 30 days	**3**	6,819	**3**	14
31 – 60 days	**–**	–	**–**	–
61 – 90 days	**–**	–	**–**	–
Over 90 days	**–**	34	**–**	–
	3	6,853	**3**	14

Included in trade receivables of the Group amounted to nil (2005: HK$6,839,000) denominated in Renminbi ("RMB").

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Cash at banks and on hand	**8,573**	3,069	**1,299**	1,147
Short term bank deposits	**2,000**	7,518	**2,000**	7,518
	10,573	10,587	**3,299**	8,665

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 4.26% (2005: 0.54% to 4.02%).

Included in cash and cash equivalents of the Group are cash and bank balances of HK$7,265,000 (2005: HK$907,000) denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency.

25. TRADE PAYABLES

At 31 December 2006, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
0 – 30 days	**–**	6,326	**–**	–

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

26. RETIREMENT BENEFIT SCHEMES

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

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Current obligations on:				
–Retirement benefit schemes:				
defined contribution plans	**107**	107	**13**	13

There were no forfeited contributions during the year (2005: NIL).

27. BANK LOAN

At 31 December 2006, the bank loan is repayable as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**49,963**	22,898	**–**	–

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

At 31 December 2006, the bank loan of HK$49,963,000 denominated in RMB was joint and several guaranteed by the Group and a minority equity holder of a subsidiary. The bank loan is unsecured and is interest bearing at a fixed rate of 6.34% per annum.

28. OTHER LOANS

At 31 December 2006, other loans were repayable as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current portion – within 1 year	**89,882**	1,633	**–**	–
Non-current portion – between 1 and 2 years	**141,995**	116,015	**–**	–
	231,877	117,648	**–**	–

At 31 December 2006, other loans, denominated in RMB, are unsecured and interest bearing at rates ranging from 5.49% to 12.00% per annum (2005: 5.49% to 10.20% per annum). As at 31 December 2006, non-current accrued interest of HK$10,594,000 (2005: HK$3,684,000) 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

At 31 December 2006, the amount due to ultimate holding company is unsecured, interest-free and repayable on demand. In the previous year, the ultimate holding company had undertaken to give not less than twelve months notice before repayment was due. The loan was accordingly classified as a long term loan.

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 7.00% per annum (2005: 7.00%) and are repayable on 31 December 2008 (2005: 31 March 2007). During the year ended 31 December 2006, interest expenses of HK$969,000 (2005: HK$869,000) were recognised in the financial statements. As at 31 December 2006, interest payables of HK$1,838,000 (2005: HK$869,000) were accrued and are repayable together with the principal debts on the respective maturity dates.

32. AMOUNTS DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES

The amounts of HK$17,986,500 (2005: HK$17,282,000) due to minority equity holders of subsidiaries are repayable on 31 March 2008 (2005: 31 March 2007). The remaining amounts of HK$43,439,000 (2005: HK$37,705,000) due to minority equity holders of another subsidiary are repayable one year after production commences. (As at 31 December 2006, the production has not been commenced). These amounts due to minority equity holders of subsidiaries, denominated in RMB, are unsecured, interest bearing at rates ranging from 6.00% to 7.00% per annum. During the year ended 31 December 2006, interest expenses of HK$3,166,000 (2005: HK$2,918,000) were recognised in the financial statements. As at 31 December 2006, interest payables of HK$6,628,000 (2005: HK$2,918,000) were accrued and are repayable together with the principal debts on the maturity dates.

33. SHARE CAPITAL

	Number of shares			
	2006	2005	**2006**	2005
			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

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 as 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 2006 was 104,080,000 (2005: 208,080,000) which represented 5% (2005: 10%) of the issued share capital of the Company at 31 December 2006. 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.

All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options. No share options have been granted since the adoption of Scheme until during the year ended 31 December 2006. All share options granted during the year ended 31 December 2006 have been accounted for under HKFRS 2. Share options granted and exercise price are as follows for the year ended 31 December 2006.

	Exercise date	**Number**	**Exercise price** HK$
Granted and outstanding			
At 31 December 2006	26 April 2008	104,000,000	1.50

The fair values of options granted during 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included an expected volatility of 57.33%, estimated weighted average expected life of 2.1 years, risk-free interest rate of 4.27%, no dividend yield and estimated employees' turnover rate of 15%.

The expected volatility was determined with reference to the historical volatility which is calculated by past two years daily average closing price of the Company from 26 April 2004 to 25 April 2006. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. The risk-free interest rate was determined with reference to the corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of options granted.

The fair value of the options granted in the current year, measured at the date of grant on 26 April 2006, totalled approximately HK$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount will be recognised as a share-based compensation expense in the consolidated income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, HK$12,953,000 was recognised as a share-based compensation expense in the consolidation income statements with a corresponding credit in share-based compensation reserve for the year ended 31 December 2006. No liabilities were recognised due to share-based payment transactions.

35. RESERVES

Group

	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Translation reserve HK$'000	Total HK$'000
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)
At 31 December 2005 and at 1 January 2006	**399,169**	**(535,231)**	**–**	**1,167**	**(134,895)**
Share-based compensation	**–**	**–**	**12,953**	**–**	**12,953**
Exchange difference on translation of the financial statements of foreign entities	**–**	**–**	**–**	**2,396**	**2,396**
Loss for the year	**–**	**(30,988)**	**–**	**–**	**(30,988)**
At 31 December 2006	**399,169**	**(566,219)**	**12,953**	**3,563**	**(150,534)**

Company

	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
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)
At 1 January 2006	**399,169**	**(526,912)**	**–**	**(127,743)**
Share-based compensation	**–**	**–**	**12,953**	**12,953**
Loss for the year	**–**	**(18,773)**	**–**	**(18,773)**
At 31 December 2006	**399,169**	**(545,685)**	**12,953**	**(133,563)**

36. DEFERRED TAX

As at 31 December 2006, no deferred tax liabilities have been provided (2005: NIL) as the amount involved was immaterial and no deferred tax assets have been recognised (2005: 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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Deductible temporary differences	**7,196**	29,277	**409**	425
Tax losses	**191,822**	186,016	**151,866**	146,151
	199,018	215,293	**152,275**	146,576

36. DEFERRED TAX *(cont'd)*

The tax losses of the Group of approximately HK$5,755,000 (2005: HK$5,658,000) will expire in four to five years while tax losses of approximately HK$186,067,000 (2005: HK$180,358,000) have no expiry date.

The tax losses of the Company of approximately HK$151,866,000 (2005: HK$146,151,000) 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 coke 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.

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

	2005 HK$'000
Net assets acquired	
Property, plant and equipment	101,115
Prepayments for construction and installation of property, plant and equipment and deposit for a potential mining project	31,717
Leasehold land and land use rights	7,333
Prepayments, deposits and other receivables	1,343
Cash at bank and on hand	706
Other payables	(9,683)
Other loans	(62,886)
Amounts due to minority equity holders	(32,810)
Interest payables	(2,099)
Net assets	34,736
Minority interests	(17,020)
Share of net assets of associates at the date it became a subsidiary	(13,200)
Net assets acquired	4,516
Goodwill arising on acquisition *(note 17)*	479
Total consideration paid, satisfied by cash	4,995
Less: Cash at bank and on hand of the subsidiaries acquired	(706)
Cash outflow on acquisition	4,289

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

Since its acquisition, the acquired subsidiary did not contribute to the Group's turnover for year ended 31 December 2005. The acquired subsidiary contributed HK$2,490,000 to the consolidated loss for the year ended 31 December 2005. 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

	2006 HK$'000	2005 HK$'000
Consideration for purchase of property, plant and equipment outstanding and unpaid included in		
– other payables	**293**	6,049
Proceeds from new other loan reclassified from other payables	**–**	9,601
	293	15,650

39. CAPITAL COMMITMENTS

Capital commitments outstanding of the Group and Company at 31 December 2006 not provided for in the financial statements are as follows:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Contracted but not provided for:				
– capital expenditure in respect of acquisition of property, plant and equipment	**112,895**	70,364	**–**	–
– capital expenditure in respect of exploration and design fees for a potential mining project	**7,604**	6,509	**–**	–
	120,499	76,873	**–**	–

40. OPERATING LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Within one year	**659**	633	**–**	–
In the second to fifth years	**2,636**	2,533	**–**	–
After five years	**26,027**	25,640	**–**	–
	29,322	28,806	**–**	–

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

41. CONTINGENT LIABILITIES

At 31 December 2006, the Group had borrowed an amount of RMB50,000,000 (equivalent to approximately HK$49,963,000) from a third party (the "Lender"). The Lender in turn had borrowed the same amount from a financial institution. As part of this funding arrangement, the Group and two subsidiaries of a minority equity holder of the Group have given joint and several guarantees for the amount borrowed by the Lender to the financial institution.

42. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) For the year ended 31 December 2005, China Merit Limited, the ultimate holding company of the Company, provided a corporate guarantee in respect of a bank loan of HK$22,898,000 in favour of one of the subsidiaries of the Company at nil consideration. The relevant bank loan has been repaid in January 2006. In addition, China Merit Limited granted an advance of HK$10,000,000 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) In January 2006, Luenshan has drawn down a banking facility denominated in RMB amounting to HK$49,963,000 from a financial institution. Jinshan, the immediate holding company of Luenshan, and a minority equity holder of Luenshan have given joint and several guarantees to secure the banking facility.

(c) In January 2006, Luenshan entered into a new loan agreement for a loan denominated in RMB of approximately HK$49,963,000 repayable in one year with a third party, (the "Lender"). Luenshan together with two subsidiaries of a minority equity holder of Luenshan have given joint and several guarantees for an amount of approximately HK$49,963,000 borrowed by the Lender to financial institution (Note 41).

(d) Key management personnel compensation:

Included in staff costs are key management personnel compensation and comprises the following categories:

	2006 HK$'000	2005 HK$'000
Short term employee benefits	**2,513**	2,493
Post-employment benefits	**24**	24
Share-based payment	**1,466**	–
	4,003	2,517

43. 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 minimising 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's exposure to fair value interest rate risk is mainly attributable to its bank loans and other loans as detailed in note 27 and 28 respectively.

(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 has significant concentration of credit risk on trade receivables. However, the management actively monitors the subsequent settlement of trade receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In order to minimise the credit risk of deposits, the management of the Group reviewed the recoverable amount of each individual deposit at each balance sheet to ensure that adequate impairment loss are made for irrecoverable amounts.

(c) Foreign currency risk

The Group has transaction currency exposures arising from sales, purchases and 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. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(e) Liquidity risk

As mentioned in note 3(a), the Group have taken various active steps to improve its cash flows. The directors of the Company are satisfied that the Group will have sufficient cash resources 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 2007. Accordingly, the financial statements have been prepared on a going concern basis.

44. POST BALANCE SHEET EVENTS

The Company and the Placing Agent entered into the Placing Agreement on 15 March 2007 pursuant to which the Placing Agent has conditionally agreed to procure placees for a maximum of 230,000,000 new Shares ("Placing Shares"), at a placing price of HK$2.00 per Placing Share, on a best effort basis.

Maxease Limited being a wholly-owned subsidiary of the Company, as issuer, the Company as guarantor, and the Manager as manager have entered into the Subscription Agreement on 15 March 2007 pursuant to which the Manager has conditionally agreed to subscribe for, or to procure subscriptions for, the Convertible Notes in an aggregate principal amount of HK$300,000,000 by the Issuer. The Convertible Notes will be issued in registered form in amounts of HK$100,000 each and will be convertible into ordinary shares of HK$0.10 each in the share capital of the Company. The Convertible Notes shall be convertible, at the options of the holders, into the Shares at any time following the issue of the Convertible Notes until 10 Business Days prior to the Maturity Date. Unless previously redeemed, converted or purchased and cancelled, the Convertible Notes shall be redeemed on the Maturity Date at 144.5044% of their principal amount, which shall give the holders of the Convertible Notes a yield equal to 7.5% per annum on a semi-annual basis from the time of issue. The net proceeds of the Subscription will initially be held in an escrow bank account until the Group has invested into, or purchased a greenfield coalmine or coal mine assets that are already in operation within 1 year from 20 April 2007. Otherwise, the Convertible Noteholders will have right at holders' option to require the Group to redeem all or part of that holders' Notes at a price that is equivalent to a give the holders a yield equal to 7.5% per annum on a semi-annual basis from the date of issue.

The aggregate of the 230,000,000 Placing Shares and the 128,755,364 Conversion Shares (assuming full conversion of the Convertible Notes at the Initial Conversion Price) represent (i) approximately 17.24% of the existing issued share capital of the Company and (ii) approximately 14.71% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and the Conversion Shares. The aggregate of the 230,000,000 Placing Shares and the 160,944,206 Conversion Shares (assuming full conversion of the Convertible Notes at the Minimum Reset Reference Price) represent (i) approximately 18.79% of the existing issued share capital of the Company and (ii) approximately 15.82% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and the Conversion Shares. The Conversion Shares will rank pari passu in all respect with the Shares then in issue at the time of the conversion.

The Placing Shares and the Conversion Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 16 June 2006. The Placing Agreement and the Subscription Agreement were completed 2 April 2007 and 20 April 2007 respectively. The aggregate amounts of net proceeds from the Placing Agreement and the Subscription Agreement is approximately HK$720,000,000. The details of the transactions are set out in the announcements of the Company dated 20 March 2007 and 2 April 2007.