THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Loudong General Nice Resources (China) Holdings Limited (the "Company"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED

樓東俊安資源(中國)控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 988)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN GENERAL NICE – LOUDONG COAL & COKE LIMITED AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

INCU Corporate Finance Limited

A letter from the independent board committee (the "**Independent Board Committee**") of the board of directors of the Company is set out on pages 21 to 22 of this circular. A letter from INCU Corporate Finance Limited, the independent financial adviser of the Company, containing its advice to the Independent Board Committee and the independent shareholders of the Company is set out on pages 23 to 49 of this circular.

A notice convening a special general meeting of the Company to be held at Lingnan Club, 13th Floor, On Lok Yuen Building, 25 Des Voeux Road Central, Hong Kong on Wednesday, 7 July 2010 at 10:30 a.m. is set out on pages 230 to 231 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular.

Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the special general meeting if you so wish.

21 June 2010

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Abterra HK"	Abterra Coal and Coke Limited, a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company
"Acquisition"	the proposed acquisition of the Sale Shares pursuant to the Agreement and the Supplemental Agreement
"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Agreement"	the conditional sale and purchase agreement dated 9 November 2009 entered into between Abterra HK and the Vendor relating to the Acquisition
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	board of the Directors from time to time
"Bondholder(s)"	the holder(s) of the Convertible Bonds
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong for general banking business
"BVI"	the British Virgin Islands
"Company"	Loudong General Nice Resources (China) Holdings Limited 樓東俊安資源(中國)控股有限公司, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange (Stock Code: 988)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement and the Supplemental Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration of HK$600,000,000 to be paid by the Company to the Vendor pursuant to the Agreement and the Supplemental Agreement
"Conversion Price"	the initial conversion price of HK$1.5 per Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Bonds

"Conversion Shares"	the Shares to be issued upon the exercise of the conversion rights in respect of the Convertible Bonds
"Convertible Bonds"	the convertible bonds in the principal amount of HK$250,000,000, to be issued by the Company in favour of the Vendor or its nominee(s) in accordance with the terms and conditions of the Agreement
"Director(s)"	director(s) of the Company from time to time
"Enlarged Group"	the Group and the Target Group after Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders as to the terms of the Agreement, the Supplemental Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds, the allotment and issue of the Conversion Shares and the issue of the Promissory Note)
"Independent Financial Adviser" or "INCU"	INCU Corporate Finance Limited, a licensed corporation under the SFO to conduct type 6 regulated activity (advising on corporate finance), appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders other than the Vendor and its associates or others who are interested in the Agreement and the Supplemental Agreement
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
"Latest Practicable Date"	17 June 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loudong PRC"	Shanxi Loudong-General Nice Coking & Gas Co., Ltd. (山西樓東俊安煤氣化有限公司), a Chinese foreign owned joint venture established in the PRC, the equity interests of which is owned as to 39.9% by the Target, as to 10% by Shanxi Dajin International (Group) Corporation (山西大晉國際(集團)股份有限公司) and as to 50.1% by Abterra HK
"MOU"	the non-legally binding memorandum of understanding dated 7 August 2009 entered into between Abterra HK and the Vendor setting out the preliminary understanding in relation to the Acquisition
"Open Offer"	the issue of 213,246,148 Shares on the basis of two shares for every five shares to shareholders by way of rights at subscription price of HK$0.66 per offer share, by referring to the prospectus dated on 2 July 2009. The results were announced on 23 July 2009
"PRC"	the People's Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Promissory Note"	the promissory note in the principal amount of HK$60,000,000 to be issued by the Company in favour of the Vendor at Completion, being part of the Consideration
"Sale Shares"	50,000 shares of US$1.00, being the entire issued share capital of the Target as at the date of the Agreement and the Supplemental Agreement which are legally and beneficially owned by the Vendor
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Acquisition and the transaction contemplated thereunder (including but not limited to issue of the Convertible Bonds, the allotment and issue of the Conversion Shares and the Promissory Notes)

"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 25 May 2010 entered into between Abterra HK and the Vendor amending certain terms of the Agreement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target"	General Nice – Loudong Coal & Coke Limited, a company incorporated in the British Virgin Islands, wholly-owned by the Vendor, the target under the Acquisition
"Target Group"	the Target and its 39.9% equity interests in Loudong PRC
"Vendor"	Hing Lou Resources Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of Xiaoyi Loudong Industry and Trading Group Company (孝義市樓東工貿企業集團公司), the vendor of the Acquisition, and the principal activity is investment holding
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED
樓東俊安資源(中國)控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 988)

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

Independent non-executive Directors:
Mr. Cheung Siu Chung
Mr. Li Xiao Long
Ms. Choy So Yuk

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit B, 12th Floor
Lippo Leighton Tower
103 Leighton Road
Causeway Bay
Hong Kong

21 June 2010

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN GENERAL NICE – LOUDONG COAL & COKE LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 10 August 2009 in respect of the MOU entered into between Abterra HK and the Vendor regarding, among other matters, the possible acquisition of the entire equity interests in the Target which upon completion of the internal reorganisation will be interested in 49.9% equity interests in Loudong PRC.

After further negotiations between the parties to the MOU and completion of internal reorganisation by Loudong PRC, the parties to the MOU have agreed that Abterra HK shall acquire, through the Acquisition from the Vendor, 39.9% equity interests in Loudong PRC instead of 49.9% equity interests in Loudong PRC as stated in the MOU.

Reference is also made to (i) the announcement of the Company dated 18 November 2009 in which the Board announced that on 9 November 2009, Abterra HK, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor in relation to the acquisition of the Sale Shares from the Vendor at a total consideration of HK$600,000,000; and (ii) the announcement of the Company dated 26 May 2010 in which the Board announced that on 25 May 2010, Abterra HK and the Vendor have entered into the Supplemental Agreement amending certain terms of the Agreement.

The purpose of this circular is to provide further details of the Acquisition, the financial and general information of the Group, the Target Group, the Loudong PRC and the Enlarged Group, and the notice of the SGM.

THE AGREEMENT

Date

9 November 2009

Parties

(i) Purchaser: Abterra HK, an indirect wholly-owned subsidiary of the Company; and

(ii) Vendor: Hing Lou Resources Limited, a connected person of the Company

As at the date of the Agreement, the Target is wholly-owned by the Vendor. Loudong PRC is owned as to 50.1% by Abterra HK, 39.9% by the Target and 10% by Shanxi Dajin International (Group) Corporation (山西大晉國際(集團)股份有限公司) ("**Shanxi Dajin**").

The Vendor, an investment holding company, is an indirect substantial shareholder of Loudong PRC, a non wholly-owned subsidiary of the Company and as such, the Vendor is a connected person of the Company. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, both being Directors, are also directors of the Vendor and the Target.

Assets to be acquired

Pursuant to the Agreement, Abterra HK has agreed to acquire and the Vendor has agreed to dispose of the Sale Shares, representing the entire issued share capital of the Target immediately prior to Completion.

Consideration

The consideration of HK$600,000,000 for the sale and purchase of the Sale Shares shall be settled by Abterra HK in the following manner:

(i) HK$350,000,000 shall be settled by Abterra HK in cash at Completion; and

(ii) HK$250,000,000 shall be satisfied by Abterra HK procuring the Company to issue the Convertible Bonds to the Vendor or its nominee(s) at Completion.

Reference is made to the section headed "THE SUPPLEMENTAL AGREEMENT" in this "LETTER FROM THE BOARD" for the revised settlement manner of the Consideration.

The consideration of HK$600,000,000 for the Sale Shares was determined by the Company and the Vendor with reference to (i) the consideration of HK$1,350 million of the previous acquisition of 50.1% equity interests of Loudong PRC, less the goodwill of approximately HK$621 million (i.e. approximately HK$729 million). As such, the acquisition of 39.9% equity interests of Loudong PRC is estimated at approximately HK$581 million; and (ii) as shown in the consolidated balance sheet of the Company as at 31 December 2009, the net assets of Loudong PRC was approximately RMB1,500 million (i.e. approximately HK$1,705 million). As such, 39.9% equity interests of Loudong PRC are estimated at approximately HK$680 million. In view of the above, the Directors (including the independent non-executive Directors) consider the Consideration to be fair and reasonable and that the Agreement is on normal commercial terms and its terms are fair and reasonable and the entering into the Agreement is in the interests of the Group and the Shareholders as a whole.

According to the agreement for the acquisition of 50.1% equity interests in Loudong PRC in 2008, the consideration comprised: (i) cash of HK$150 million; (ii) convertible notes with principal of HK$1,000 million; and (iii) 100,000,000 consideration Shares issued by the Company. At the date of completion of the acquisition on 3 September 2008 which was the date of issuance of the consideration Shares, the closing price of the Shares was HK$2.00. Therefore, as discussed with the Company's auditor, the value of the 100,000,000 consideration Shares should be HK$200 million. Together with the cash consideration of HK$150 million and the convertible notes of HK$1,000 million, the aggregate consideration for the acquisition of 50.1% equity interests of Loudong PRC was equivalent to HK$1,350 million. The same presentation has been made in Note 35 "Business Combination" in pages 93 to 95 of the Company's 2008 Annual Report. In the event that the aggregate audited attributable net profits of 50.1% equity interest of Loudong PRC for the financial year ending 31 December 2008 and the financial year ending 31 December 2009 exceeds HK$230 million (the "**Profit Guarantee**"), the consideration for the acquisition shall be increased by HK$280 million. In aggregate, the consideration will be adjusted to HK$1,630 million. Such increased amount is to be satisfied by way of Buddies Power Enterprises Limited, the purchaser of 50.1% equity interests of Loudong PRC, procuring the Company to issue the promissory note (the "**Adjusted Promissory Note**") to the General Nice Resources (Hong Kong) Limited ("**GNR**"), the vendor for the transaction of the acquisition of 50.1% equity interests of Loudong PRC. According to the circular dated 29 May 2008, the terms of the promissory note are composed of 1) interest payable at the Hong Kong interbank offer rate plus 2.5% semi-annually on the outstanding principal amount in respect of each interest period of six months commencing from the date of issue of the promissory note; 2) repayable at the options of the Company, in whole or in part, at any time prior to maturity, any principal amount outstanding on the promissory note, provided that the entire unpaid principal amount (together with all the interest accrued thereon) must be repaid no later than the fifth anniversary of the date of issue of the promissory note; and 3) GNR may, at its option, assign or transfer, in whole or in part, at any time prior to maturity, any amount outstanding on the promissory note; and certain other terms.

As at the Latest Practicable Date, the parties confirmed that the Profit Guarantee has been met, the Company will publish for the announcement as to the details of the Adjusted Promissory Note and the date of issue of such promissory note.

Source of funding

Cash portion of the Consideration will be financed by the fund raising activities ("**Fund Raising Activities**") including by way of placing or possible issue of new Shares by the Company or loans or other credit facilities to be extended to the Group. The amount to be raised in the Fund Raising Activities shall not be less than the cash portion of the Consideration. Completion of the Fund Raising Activities is one of the conditions precedent to Completion. In this regard, please refer to the paragraph headed "Conditions precedent" below.

Conditions precedent

The Agreement is conditional upon:

(a) the passing by the Independent Shareholders at the SGM of the resolution approving the Agreement and the transactions contemplated by the Agreement, in particular, the issue of the Convertible Bonds and the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds;

(b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares;

(c) Abterra HK being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;

(d) Abterra HK receiving satisfactory PRC legal opinion issued by Global Law Office confirming amongst other things, (i) all necessary consents and approvals from relevant PRC governmental authorities and any third parties have been obtained in respect of the Agreement; and (ii) the Target is legally and beneficially owns 39.9% equity interests in Loudong PRC; (iii) the operation and the business of the Loudong PRC are in compliance with all PRC laws and regulations; and (iv) any other matters which Abterra HK may reasonable require;

(e) the completion of the Fund Raising Activities;

(f) the warranties in respect of the operation of the Target Group given by the Vendor under the Agreement remaining true and accurate and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the Agreement and Completion;

(g) the Vendor having complied fully with the obligations in the Agreement and otherwise having performed in all material respects all the covenants and agreements required to be performed by it under the Agreement;

(h) all necessary consents being granted by third parties (including governmental or official authorities) for the sale and purchase of the Sale Shares and other transactions contemplated herein, and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of any member of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority;

(i) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Agreement and the matters contemplated thereunder having been obtained; and

(j) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Conversion Shares.

The Purchaser may waive both or any of the conditions (f) and (g) above. The conditions (a), (b), (c), (d), (e), (h), (i) and (j) above are incapable of being waived.

As at the Latest Practicable Date, conditions (c), (d), (i) and (j) have been fulfilled.

If the conditions have not been satisfied on or before 12:00 noon on 30 April 2010, or such later date (the "**Long Stop Date**") as Abterra HK and the Vendor may agree, the Agreement shall cease and be terminated, and thereafter neither party to the Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Reference is made to the section headed "THE SUPPLEMENTAL AGREEMENT" in this "LETTER FROM THE BOARD" for the extension of the Long Stop Date to 31 August 2010.

Completion

Completion shall take place at 4:00 p.m. on the date falling on the second Business Day after the fulfillment of the conditions or such later date as may be agreed between Abterra HK and the Vendor.

Before the Acquisition, Loudong PRC is an indirect non wholly-owned subsidiary of the Company and the Company is interested in 50.1% of the equity interests of Loudong PRC. Upon Completion, Loudong PRC will remain an indirect non wholly-owned subsidiary of the Company and the Company is interested in 90% of the equity interests of Loudong PRC and the accounts of the Target Group will be consolidated with that of the Group.

THE SUPPLEMENTAL AGREEMENT

Date: 25 May 2010

Parties: (i) Purchaser: Abterra HK, an indirect wholly-owned subsidiary of the Company; and

(ii) Vendor: Hing Lou Resources Limited, a connected person of the Company

Revised settlement manner of the Consideration

The consideration of HK$600,000,000 for the sale and purchase of the Sale Shares shall be settled in the following manner:

(a) HK$290,000,000 shall be satisfied by Abterra HK in cash at Completion;

(b) HK$250,000,000 shall be satisfied by Abterra HK procuring the Company to issue the Convertible Bonds to the Vendor at Completion; and

(c) HK$60,000,000 shall be satisfied by Abterra HK procuring the Company to issue the Promissory Note (as defined below) to the Vendor at Completion.

Other than the settlement manner mentioned above, the terms of the Consideration remain unchanged.

The revised settlement manner of the Consideration was arrived at after arm's length negotiations between Abterra HK and the Vendor. In view of the revised settlement manner of the Consideration which reduce the immediate cash payment by the Company upon Completion, the Directors (including the independent non-executive Directors) consider the revision to be fair and reasonable and that the Supplemental Agreement is on normal commercial terms and its terms are fair and reasonable and the entering into of the Supplemental Agreement is in the interests of the Group and the Shareholders as a whole.

Revised conditions precedent and Long Stop Date

The conditions precedent and the Long Stop Date as set out in the Agreement have been amended as follows:

(a) Condition Precedent

The passing by the Independent Shareholders at the SGM of the resolution approving the Agreement, the Supplemental Agreement and the transactions contemplated by the Agreement, the Supplemental Agreement, in particular, the issue of the Convertible Bonds and the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds and the issue of the Promissory Note.

(b) Long Stop Date

Each of the Vendor and Abterra HK shall use its best endeavours to procure the fulfillment of the conditions precedent set out in the Agreement (as amended by the Supplemental Agreement) on or before 31 August 2010 (or such later date as Abterra HK and the Vendor may agree in writing).

Other than the above condition and the Long Stop Date, the other conditions precedent remain unchanged.

THE PROMISSORY NOTE

The Company shall issue a promissory note in a principal amount of HK$60,000,000 (the "**Promissory Note**") in favour of the Vendor as part of the Consideration at Completion. The Promissory Note bears no interest and repayable in one lump sum on maturity of three years. The Company has the right to redeem the Promissory Note prior to its maturity in integral multiples of HK$1,000,000. The Promissory Note may, with prior written notice given by the Vendor to the Company, be freely transferable and assignable to any Independent Third Parties in whole or in integral multiples of HK$1,000,000 and in whole only if the outstanding principal sum of the Promissory Note is less than HK$1,000,000.

TERMS OF CONVERTIBLE BONDS

The terms of the Convertible Bonds have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK$250,000,000

Interest

The Convertible Bonds shall not bear any interest.

Maturity

A fixed term of three years from the date of issue of the Convertible Bonds. Unless previously redeemed, converted or cancelled as provided in the agreement pursuant to which the Convertible Bonds are to be issued, the Company shall redeem the outstanding principal amount of the Convertible Bonds on the maturity date.

The Company may at any time before the maturity date of the Convertible Bonds by serving prior written notice on the Bondholder(s) with the total amount proposed to be redeemed from the Bondholder(s) specified therein, redeem the Convertible Bonds (in whole or in part) at par.

Conversion

Under the terms of the Convertible Bonds, the Bondholder(s) shall not exercise its rights attached to the Convertible Bonds if, immediately following the conversion:

(a) the Company will be unable to meet the public float requirement under the Listing Rules; and

(b) the Bondholder(s) together with the parties acting concert with it will hold or control such an amount of the Company's voting power at general meetings as may trigger a mandatory general offer under the Takeovers Code (whether or not a waiver of the mandatory general offer obligation has been granted).

Convertible Price

The Conversion Price is HK$1.50 per Conversion Share subject to the adjustment events which will arise as a result of certain changes in the Share capital of the Company including consolidation or sub-division of the Shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in cash by the Company, subsequent issue of securities for acquisition of assets by the Company, issue of Shares by way of rights or grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares, such issue of Shares and securities shall be at a price per Share which is less than 95 per cent. of the average closing price per Share quoted on the daily quotation sheet of the Stock Exchange for the five (5) trading days immediately preceding such date of the announcement of the terms.

The Conversion Price represents: (i) a premium of approximately 25.00% over the closing price of HK$1.20 per Share as quoted on the Stock Exchange on 9 November 2009, being the date of the Agreement; (ii) a premium of approximately 33.93% over the average of the closing prices of approximately HK$1.120 per Share as quoted on the Stock Exchange for the last five trading days up to and including 9 November 2009, being the date of the Agreement; (iii) a premium of approximately 34.17% over the average of the closing prices of HK$1.118 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 9 November 2009, being the date of the Agreement; (iv) a premium of approximately 21.95% over the closing price of HK$1.23 per Share as quoted on the Stock Exchange as at the Latest Practicable Date, and (iv) a discount of approximately 16.71% to the net asset value per Share of HK$1.801 based on the audited consolidated financial statements of the Group as at 31 December 2009.

The Conversion Price was determined by Abterra HK and the Vendor on an arm's length basis with reference to the current market price of the Shares and the duration of the Convertible Bonds. The Directors (including the independent non-executive Directors) consider that the Conversion Price is fair and reasonable.

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bonds in the aggregate principal amount of HK$250,000,000 at the Conversion Price by the Bondholder(s), the Company will issue an aggregate of 166,666,666 new Shares, representing approximately (i) 11.22% of the existing issued share capital of the Company; and (ii) 10.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM.

Ranking

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion notice.

Status of the Convertible Bonds

The Convertible Bonds constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Transferability

The Bondholder(s) may assign or transfer the Convertible Bonds to Independent Third Parties in whole or in part in integral multiples of HK$1,000,000 or if the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000, the whole but not part of the Convertible Bonds may be assigned or transferred.

Voting rights

The Convertible Bonds do not confer any voting rights at any meetings of the Company.

Application for listing

No application will be made by the Company for the listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

INFORMATION ON THE TARGET GROUP

The Target is an investment holding company incorporated in BVI on 19 September 2007. Its sole investment is 39.9% equity interests in Loudong PRC.

Loudong PRC is a limited liability company established in the PRC on 4 November 1994.

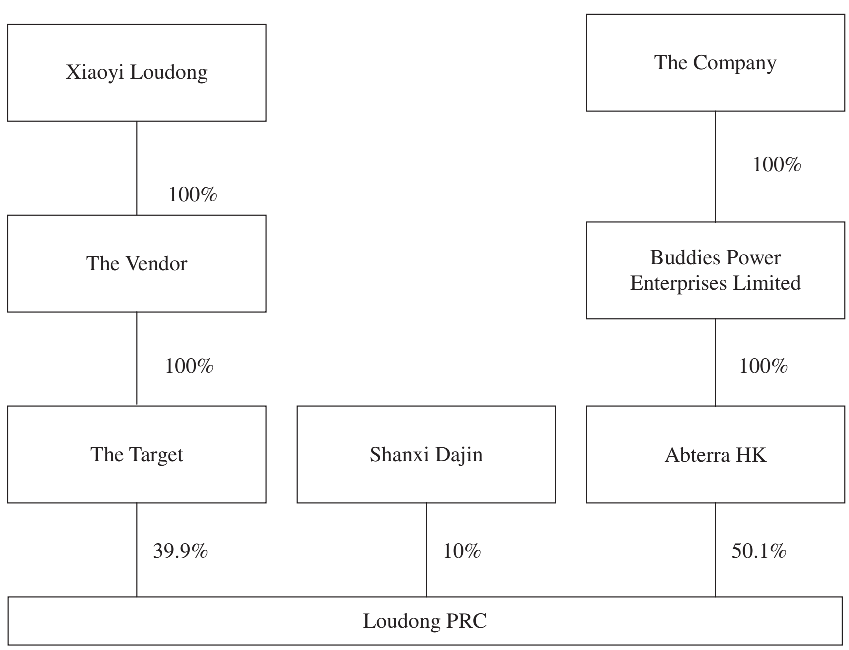
According to the financial statement of Loudong PRC for the year ended 31 December 2009, which are set out in Appendix III and which has been prepared in accordance with the International Financial Reporting Standards, the net asset value was approximately RMB1,499,657,000; and the net profit before and after taxation and extraordinary items were approximately RMB387,579,000 and RMB263,634,000 respectively.

Xiaoyi Loudong Industry & Trading Group Company 孝義市樓東工貿企業集團公司 ("**Xiaoyi Loudong**"), the ultimate beneficial owner of the Target, was one of the promoters of Loudong PRC for its incorporation in 1994 and has been holding the 39.9% equity interests of Loudong PRC since then. The paid-in capital made by Xiaoyi Loudong to Loudong PRC amounted to RMB98,154,000. The Vendor is a direct wholly-owned subsidiary of Xiaoyi Loudong. The 39.9% equity interests in Loudong PRC was transferred from Xiaoyi Loudong to the Target on 4 November 2009 for the purpose of and to facilitate the Acquisition.

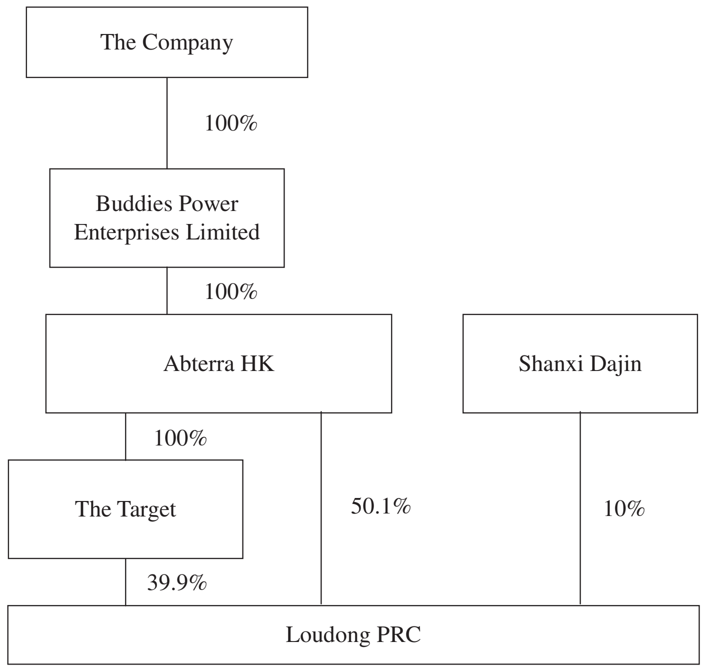
Group structure

The following charts show the group structure of the Target Group as at the Latest Practicable Date and immediately after Completion:

As at the Latest Practicable Date



Immediately after Completion



CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has 1,485,947,811 Shares in issue. On 9 July 2009, the Company has issued a total of 21,700,000 share options to certain Directors and employees of the Company, such share options are exercisable at HK$0.886 per option from 9 January 2010 to 24 June 2017. On 11 January 2010, as a result of completion of Open Offer, the total number of share options granted was adjusted to 24,584,971 with adjusted subscription price at HK$0.782 per option. Thereafter, 1,019,654 share options and 226,590 share options were exercised by the holders and being lapsed respectively. As at the Latest Practicable Date, 23,338,727 share options remain outstanding of which 22,658,957 share options become exercisable from 9 January 2010 while the balance of 679,770 share options are exercisable from 9 July 2010. Save for the share options mentioned above, there are no outstanding warrants; share option; or securities or derivatives that are convertible or exchangeable into Shares or confer any right to subscribe for Shares as at the Latest Practicable Date.

The Vendor and GNR are parties acting in concert with each others, due to their former direct equity ownership in Loudong PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries: (i) there is no direct relationship and no business dealings between each of the Vendor and GNR and their concert parties; and (ii) there is no arrangement, understanding, agreements or negotiations regarding the Acquisition between each of the Vendor and GNR and their concerted parties.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following table sets out the current shareholdings in the Company and the possible scenarios, based on conversion of the Convertible Bonds:

a) The Vendor and its concert parties convert the Convertible Bonds to Shares up to the point before triggering a mandatary general offer.

b) The Vendor and their concert parties convert all of the Convertible Bonds.

Shareholders	As at the Latest Practicable Date and before Completion		Immediately after Completion and conversion of the Convertible Bonds and immediately before triggering a mandatory general offer obligation under the present provisions of the Takeovers Code *(Note 3)*		Immediately after Completion and full conversion of the Convertible Bonds (for illustration purpose only) *(Note 4)*	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
GNR and its concert parties	278,376,383	18.73	278,376,383	17.15	278,376,383	16.84
The Vendor and its concert parties	69,897,483	4.70	206,879,855	12.75	236,564,149	14.32
Sub-total	348,273,866	23.43	485,256,238	29.90	514,940,532	31.16
Lau Yu *(Note 1)*	7,342,000	0.50	7,342,000	0.45	7,342,000	0.44
Li Xiao Juan *(Note 2)*	630,000	0.04	630,000	0.04	630,000	0.04
Public Shareholders	1,129,701,945	76.03	1,129,701,945	69.61	1,129,701,945	68.36
Total	1,485,947,811	100.00	1,622,930,183	100.00	1,652,614,477	100.00

Notes:

1. Mr. Lau Yu is an executive Director.

2. Ms. Li Xiao Juan is an executive Director.

3. As the ultimate beneficial owner of the Vendor was the former substantial shareholder of Loudong PRC interested in over 20% of its equity interest, the Vendor and GNR, whom also being a former substantial shareholder of Loudong PRC interested in over 20% of its equity interest, are deemed to be acting in concert with each others. As such, pursuant to the terms and conditions of the Convertible Bonds, the Bondholder(s) may exercise all or part of the Convertible Bonds provided that the issue of the relevant Conversion Shares to it/them shall not trigger any general offer obligation on the part for the relevant Bondholder who exercises the Convertible Bonds. For further details, see the paragraph headed "Terms of Convertible Bonds" above.

4. The numbers are for illustration purpose only. Pursuant to the terms and conditions of the Convertible Bonds, the Bondholder(s) may exercise all or part of the Convertible Bonds provided that the issue of the relevant Conversion Shares to it/them shall not trigger any general offer obligation on the part for the relevant Bondholder who exercises the Convertible Bonds. For further details, see the paragraph headed "Term of Convertible Bonds" above.

REASONS FOR THE ACQUISITION

The Group is currently engaged in coal processing and production of coke and coal-related chemicals, property investment and development, securities investment and trading and general trading.

As stated in the announcement of the Company dated 3 September 2008, the Company has completed the acquisition of the entire equity interest in Abterra HK, a company incorporated in Hong Kong with limited liability, which is interested in 50.1% equity interests in Loudong PRC.

The Company initiated the Acquisition and started the negotiation with the Vendor in June 2009 in line with its strategy to build the Company into one of the largest integrated coke and coal enterprises in the PRC on the solid foundation of Loudong PRC.

The Directors expected that the Acquisition if materialized will be a good opportunity for the Group to further strength its business in the coal processing and production of coke and coal-related chemicals industry in the PRC. Taking into account of the following factors (i) the prospect of the coal processing and production of coke and coal-related chemicals industry in the PRC; and (ii) the continuous robust growth of the economy in the PRC, the Directors (including independent non-executive Directors) are of the view that it is the right time to increase its stake in Loudong PRC and to capture potential opportunities in the booming coal processing and production of coke and coal-related chemicals industry in the PRC and to achieve business growth for the Group. Based on the above, the Directors are also of the view that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules. The Vendor is an indirect substantial shareholder of Loudong PRC, a non wholly-owned subsidiary of the Company, as such the Vendor is therefore a connected person of the Company. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, both being Directors, are also the directors of the Vendor and the Target. The Acquisition therefore also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting, announcement and the Independent Shareholders' approval requirements by way of poll at the SGM.

Approval of the Independent Shareholders by way of poll is proposed to be sought at the SGM in respect of the Agreement, the Supplemental Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Bonds, the allotment and issue of the Conversion Shares and the issue of the Promissory Note.

The Vendor and its associate, including Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, are, in aggregate, interested in 70,527,483 Shares representing approximately 4.75% of the total issued Shares of 1,485,947,811 Shares as at the Latest Practicable Date and are required to abstain from voting in respect of the Acquisition and the transactions contemplated thereunder at the forthcoming SGM. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, given the position as a Directors, and are also the directors of the Vendor and the Target, have abstained from voting on the Board resolution approving the Acquisition and the transaction contemplated thereunder. Save as disclosed, no other Shareholders have material interest in the Acquisition and the transactions contemplated thereunder and are required to abstain from voting in respect of the approval of the Acquisition and the transactions contemplated thereunder at the forthcoming SGM.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, Loudong PRC will remain an indirect non wholly-owned subsidiary of the Company and the Company is interested in 90% of the equity interests of Loudong PRC and the accounts of the Target Group will be consolidated with that of the Group.

Set out in appendix V to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial effect of the Acquisition on (i) the results and cash flows of the Enlarged Group assuming the Completion had taken place on 1 January 2009; and (ii) on the assets and liabilities of the Enlarged Group assuming the Completion had taken place on 31 December 2009.

Based on the unaudited pro forma consolidated balance sheet in appendix V to this circular, the total assets of the Group would decrease by approximately 1% from HK$4,359,869,000 to HK$4,318,993,000; and its total liabilities would increase by approximately 10% from HK$2,574,622,000 to HK$2,822,772,000, as a result of the Acquisition. The Directors consider that the Acquisition will have a positive impact on the earnings base and financial position of the Enlarged Group and the Enlarge Group will benefit from the Acquisition.

As at 31 December 2009, the Target had recorded liabilities totaling HK$289,657,506 to related parties. These liabilities arose from the acquisition of the equity interest in Loudong PRC. As a pre-condition of the acquisition arrangement, these liabilities were waived prior to completion of the acquisition.

SGM

The SGM will be held at Lingnan Club, 13th Floor, On Lok Yuen Building, 25 Des Voeux Road Central, Hong Kong on Wednesday, 7 July 2010 at 10:30 a.m., the notice of which is set out on pages 230 to 231 of this circular, to consider and, if thought fit, approve the ordinary resolution(s) to approve the Acquisition and the transactions contemplated thereunder.

There is a form of proxy for use at the SGM accompanying this circular. Whether or not you will be able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution(s) proposed at the SGM will be taken by way of poll.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Cheung Siu Chung, Mr. Li Xiao Long and Ms. Choy So Yuk, all being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

INCU has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement, the Supplemental Agreement and transactions contemplated thereunder.

The Independent Board Committee and the Directors, having taken into account the advice of the Independent Financial Adviser, consider that the Agreement and the Supplemental Agreement were entered into on normal commercial terms and that the terms of the Agreement and the Supplemental Agreement are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) which will be proposed at the SGM for approving the Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

RECOMMENDATION

The Board having taken into account the advice of the Independent Financial Adviser and the Independent Board Committee considers that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution(s) approving the Agreement, the Supplemental Agreement and the transactions contemplated thereunder as set out in the notice of the SGM.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this circular which contains its views in relation to the Agreement, the Supplemental Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Agreement, the Supplemental Agreement and the transactions contemplated thereunder and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from the Independent Financial Adviser is set out on pages 23 to 49 of this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the financial information of the Group and the Target Group, and other information set out in the appendices to this circular.

By order of the Board
Loudong General Nice Resources (China) Holdings Limited
Lau Yu
Executive Director

LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED
樓東俊安資源(中國)控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 988)

21 June 2010

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN GENERAL NICE – LOUDONG COAL & COKE LIMITED

We refer to the circular of the Company dated 21 June 2010 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee and to advise you as to whether the terms of the Agreement and the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. INCU Corporate Finance Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 23 to 49 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 20 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the Agreement and the Supplemental Agreement, the principal reasons and factors considered by, and the advice of INCU Corporate Finance Limited as set out in its letter of advice, we are of the opinion that the Acquisition and the transactions contemplated thereunder is on normal commercial terms and the terms of the Agreement and the Supplemental Agreement are fair and reasonable so far as the interests of the Company and the Shareholders as a whole are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee of
Loudong General Nice Resources (China) Holdings Limited

Cheung Siu Chung	**Li Xiao Long**	**Choy So Yuk**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition prepared for incorporation in this circular.

INCU Corporate Finance Limited

Unit 1602, Ruttonjee House
Ruttonjee Centre, 11 Duddell Street
Central, Hong Kong

21 June 2010

To the Independent Board Committee and
the Independent Shareholders of

Loudong General Nice Resources (China) Holdings Limited
Unit B, 12th Floor, Lippo Leighton Tower
103 Leighton Road
Causeway Bay, Hong Kong

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RESPECT OF THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN GENERAL NICE – LOUDONG COAL & COKE LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Agreement and the Supplemental Agreement were entered into on normal commercial terms and that the terms of the Agreement and the Supplemental Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The details of the Agreement and the Supplemental Agreement are contained in the Letter from the Board in the circular of the Company dated 21 June 2010 (the "**Circular**"), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise stated.

We have been retained by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Agreement and the Supplemental Agreement were entered into in the usual and ordinary course of business of the Group; (ii) whether the terms of the Agreement, the Supplemental Agreement and the transactions contemplated therein are entered into upon normal commercial terms following arm's length negotiations amongst the parties and are fair and reasonable so far as the interests of the Company and the Shareholders as a whole are concerned; and (iii) to advise the Independent Shareholders whether to vote in favour of the ordinary resolution(s) in relation to the Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

The Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules. The Vendor is an indirect substantial shareholder of Loudong PRC, a non wholly-owned subsidiary of the Company, as such the Vendor is therefore a connected person of the Company. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, both being Directors, are also the directors of the Vendor and the Target. The Acquisition therefore also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting, announcement and the Independent Shareholders' approval requirements by way of poll at the SGM.

Approval of the Independent Shareholders by way of poll is proposed to be sought at the SGM in respect of the Agreement, the Supplemental Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares and issue of the Promissory Note.

The Vendor and its associates, including Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, are, in aggregate, interested in 70,527,483 Shares, representing approximately 4.75% of the total issued Shares of 1,485,947,811 Shares as at the Latest Practicable Date, of which the Vendor and Ms. Li Xiao Juan is interested in 69,897,483 Shares and 630,000 Shares respectively, are required to abstain from voting in respect of the Acquisition and the transactions contemplated thereunder at the forthcoming SGM. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, given the position as a Directors, and are also the directors of the Vendor and the Target, have abstained from voting on the Board resolution approving the Acquisition and the transaction contemplated thereunder. Save as disclosed, no other Shareholders have material interest in the Acquisition and the transactions contemplated thereunder and are required to abstain from voting in respect of the approval of the Acquisition and the transactions contemplated thereunder at the forthcoming SGM.

An independent board committee of the Company, comprising all the independent non-executive Directors, namely, Mr. Cheung Siu Chung, Mr. Li Xiao Long and Ms. Choy So Yuk has been established to advise the Independent Shareholders in respect of the Agreement, the Supplemental Agreement and the transactions contemplated thereunder. INCU has been appointed to advise the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company and its management and the Directors. We have assumed that all statements and representations made or referred to in the Circular were true at the time they were made and continue to be true at the date of the SGM. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been confirmed by the Directors that there are no material facts and representations not contained in the Circular, the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Enlarged Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendation regarding the Agreement, the Supplemental Agreement and the transactions contemplated thereunder. Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby INCU will receive any benefits from the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the Supplemental Agreement, we have taken into consideration of the following factors and reasons:

1. Background

Reference is made to the announcement of the Company dated 10 August 2009 in respect of the MOU entered into between Abterra HK and the Vendor regarding, among other matters, the possible acquisition of the entire equity interests in the Target which upon completion of the internal reorganisation will be interested in 49.9% equity interests in Loudong PRC.

After further negotiations between the parties to the MOU and completion of internal reorganization by Loudong PRC, the parties to the MOU have agreed that Abterra HK shall acquire, through the Acquisition from the Vendor, 39.9% equity interests in Loudong PRC instead of 49.9% equity interests in Loudong PRC as stated in the MOU.

Reference is also made to the announcement of the Company dated 18 November 2009 in which the Board announced that on 9 November 2009, Abterra HK entered into the Agreement with the Vendor in relation to the acquisition of the Sale Shares from the Vendor at a total consideration of HK$600,000,000.

Reference is also made to the announcement of the Company dated 26 May 2010 in which the Board announced that on 25 May 2010, Abterra HK and the Vendor entered into the Supplemental Agreement to amend, among other matters, the settlement terms of the Consideration and the Long Stop Date.

2. Reasons for the Agreement

Principal business of the Group

The Group is currently engaged in coal processing and production of coke and coal-related chemicals, property investment and development, securities investment and trading and general trading.

As disclosed in the annual report of the Company for the year ended 31 December 2009 (the "**Annual Report**"), the Group recorded revenue from continuing operations of approximately HK$1,224,798,000 for the year ended 31 December 2009 (2008: approximately HK$506,833,000), representing an increase of approximately 142% from the previous year. The surge in revenue reflected the first full-year revenue contribution of the Group's coke manufacturing business operated by Loudong PRC, of which 50.1% stake was acquired by the Group in September 2008 (the "**First Acquisition**").

As disclosed in the Annual Report, the profit attributable to owners of the parent for 2009 was approximately HK$50,414,000 as compared with the loss attributable to owners of the parent of approximately HK$563,433,000 for the preceding year, which was mainly due to a one-off goodwill impairment arising from the First Acquisition. The profit turnaround for the year under review proved the significant contribution of the coke manufacturing business which is the sole business of the Group during the year. Yet, the profit for 2009 was eroded by certain non-operating items and was arrived at after deducting non-cash expense of approximately HK$10,085,000 in connection with the grant of share options in the second half of 2009 and deemed interest expense of approximately HK$63,561,000 for the convertible notes issued for the First Acquisition. In addition, the profit was further abated by a higher taxation charged in 2009 as Loudong PRC was no longer entitled to tax holiday for the year.

Reasons for entering into of the Agreement

As stated in the announcement of the Company dated 3 September 2008, the Company has completed the acquisition of the entire equity interest in Abterra HK, a company incorporated in Hong Kong with limited liability, which is interested in 50.1% equity interests in Loudong PRC. Since then, the Group has successfully repositioned itself to focus on resources business in China, along with the disposal of its non-core hotel and property development business in early 2009.

Most importantly, building on the solid platform of Loudong PRC, the Group has initiated a number of merger and acquisition in 2009 aiming to transform the Group into one of the leading integrated coal and coke companies in China, despite a tough year in the aftermath of the financial tsunami.

The Company initiated the Acquisition and started the negotiation with the Vendor in June 2009 in line with its strategy to build the Company into one of the largest integrated coke and coal enterprises in China on the solid foundation of Loudong PRC.

As stated in the Annual Report, the coke production industry in the PRC is in recession since early 2009, steel market worldwide remained in the doldrums and steelmakers had contracted production output. The situation deteriorated when all the 2,600 coal mines in Shanxi were ordered to consolidate into about 1,000, which in effect led to a sharp reduction of coal supplies. All these factors had adversely affected the coking industry in China since metallurgical coke is a major ingredient in steel production and China is the world's largest coke producer. As a consequence, the coking plants across the country had voluntarily adopted an aggressive reduce-output strategy, up to 60% output cut, in order to support coke prices and maintain profitability.

Fortunately, leveraging on the PRC central government's proactive economic stimulus package gradually filtering through the economy, the steel sector recovered gradually. Coupled with the coke reduced-output strategy, the pressure on the coking sector has been alleviated with coke prices rebounding from the bottom of around RMB1,450 per tonne in the first half of 2009 to nearly RMB2,000 per tonne in late 2009. Moreover, coke price movement becomes stable in early 2010. Yet, those smaller inefficient coking plants were still at a loss-making or near break-even stage in 2009 as they struggled to get coal supplies. Loudong PRC emerged to outperform in such a tough market, attributable to its scale and comprehensive operation, as well as its relatively stable source of coal supplies, as a few of its long-term coal suppliers were least affected in Shanxi's mining consolidation in 2009.

After discussion with the management of the Company, they indicated that the steel production in the PRC from late 2008 to early 2009 sharply declined as a result of the global financial crisis, yet, benefiting from the PRC central government's RMB4 trillion stimulus package, including various new infrastructure projects and transportation-related investments, demand for steel increased sharply, hence, demand for quality coke sharply increased as well. As investment projects are ongoing, the management expects the demand for both steel and quality coke in the PRC will continue to increase in 2010. The management believes that leveraging on the economies of scale and comprehensive operation of Loudong PRC, the Group is able to capture further market share thanks to the continuing increase in demand of quality coke for steel production in the PRC. As reported in the Annual Report, sales in Loudong PRC in the first two months of the year 2010 has shown 40% increase while resumption of export sales is positive given the latest trend of improved price and demand.

The Directors expect that the Acquisition if materialized will be a good opportunity for the Group to further strengthen its business in the coal processing and production of coke and coal-related chemicals industry in the PRC. Taking into account the following factors (i) the prospect of the coal processing and production of coke and coal-related chemicals industry in the PRC; and (ii) the continuous robust growth of the economy in the PRC, the Directors (including independent non-executive Directors) are of the view that it is the right time to increase its stake in Loudong PRC and to capture potential opportunities in the booming coal processing and production of coke and coal-related chemicals industry in the PRC and to achieve business growth for the Group.

Based on the above, the Directors (including independent non-executive Directors) are also of the view that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. In view of the principal business and the business strategy of the Group as described above, the Agreement and the Supplemental Agreement are in the usual and ordinary course of business of the Group and we concur with the view of the Directors.

Moreover, as explained by the Directors by acquiring a further 39.9% equity interests in the Target, the Acquisition will benefit the Company and the Shareholders as a whole as the minority interests in Loudong PRC will be immediately reduced upon Completion and the profits from both coke manufacturing and production attributable to the Group will be increased. In view of the (i) immediate benefits to the Company and the Shareholders which will be further elaborated under the sub-paragraph headed "Financial effects of the Acquisition"; (ii) business prospects of the Target Group; and (iii) the business strategy of the Group to further expand in the industry by acquiring new coal mines which will lead to synergy effect and economies of scale to the Group, we concur with the view of the Directors that the Acquisition will benefit the Company and the Shareholders as a whole.

Information on the Target Group

The Target is an investment holding company incorporated in the BVI on 19 September 2007. Its sole investment is 39.9% equity interests in Loudong PRC.

Loudong PRC is a limited liability company established in the PRC on 4 November 1994.

Principally engaged in coal washing, coke production, coal-related chemicals production and power generation, Loudong PRC is recognized as one of the largest and most comprehensive coking plants in Xiaoyi City of Shanxi, which is the dominating coal and coke producing province in China.

The following table summarizes the financial performance of Loudong PRC for the year ended 31 December 2009 and for the nine-month period ended 31 December 2008 which has been shown in the Appendix III to this Circular and has been prepared in accordance with the International Financial Reporting Standards:

	For the year ended 31 December 2009	**For the nine months ended 31 December 2008**
	RMB	*RMB*
Revenue	1,079,223,172	1,232,585,402
Gross profit	399,948,750	466,655,237
Gross profit margin (%)	37.1%	37.9%
Profit before tax	387,579,045	211,302,540
Profit before tax margin (%)	35.9%	17.1%
Profit after tax	263,633,618	184,478,242
Profit after tax margin (%)	24.4%	15.0%

	As at 31 December 2009	**As at 31 December 2008**
	RMB	*RMB*
Net assets	1,499,657,219	1,236,023,601

During the year ended 31 December 2009, although sales have been decreased from approximately RMB1,232.6 million to RMB1,079.2 million by 12.45%, the gross profit margin remains roughly at 37% for the year. Moreover, both the profit before and after tax margin have been increased from 17.1% to 35.9% and 15.0% to 24.4% respectively. We noted that the decrease in sales was mainly due to decrease in both global demand for steel as well as demand for metallurgical coke in times of financial tsunami in early 2009 and price for metallurgical coke fell during the first half of the year. The sales has been recovered in the second half of the year. The Group's coke manufacturing business managed to perform better largely attributable to its efficient operation and stable long-term coal supplies. As such, a reasonable level of gross margin of 37% was maintained in the year under review.

As at 31 December 2009, the Target had recorded liabilities totaling HK$289,657,506 to related parties. These liabilities arose from the acquisition of the equity interest in Loudong PRC. As a pre-condition of the acquisition arrangement, these liabilities were waived prior to completion of the acquisition.

Loudong PRC's sales are primarily to several major customers. Loudong PRC has a significant concentration of business risk as 87%, 79% and 65% of the total sales for the year ended 31 December 2009, nine-month period ended 31 December 2008, and year ended 31 March 2008 respectively, were made to the Loudong PRC's five largest customers. In the event that these customers ceased to purchase from Loudong PRC and Loudong PRC could not secure orders from other customers, Loudong PRC's turnover and profitability would be adversely affected.

As discussed with the management of the Company, starting from 2009, the major customer for the Group is 山西焦炭集團國內貿易有限公司 (Shanxi Coke Group Trade Co., Ltd.), which accounts for about 59.12% of the total sales of the Group for the year ended 31 December 2009. It is an organization which works closely with the market players of coal-related business in Shanxi. It bargains the terms of sales for the members (of which Loudong PRC is one of them) with the ultimate customers. It could benefit its members in better sales terms and collectability of debt. In view of the fact that relationship with ultimate customers will be managed partly through 山西焦炭集團國內貿易有限公司 (Shanxi Coke Group Trade Co., Ltd.) and Loudong PRC is still providing its products and services to different customers, concentration risk of Loudong PRC is reduced.

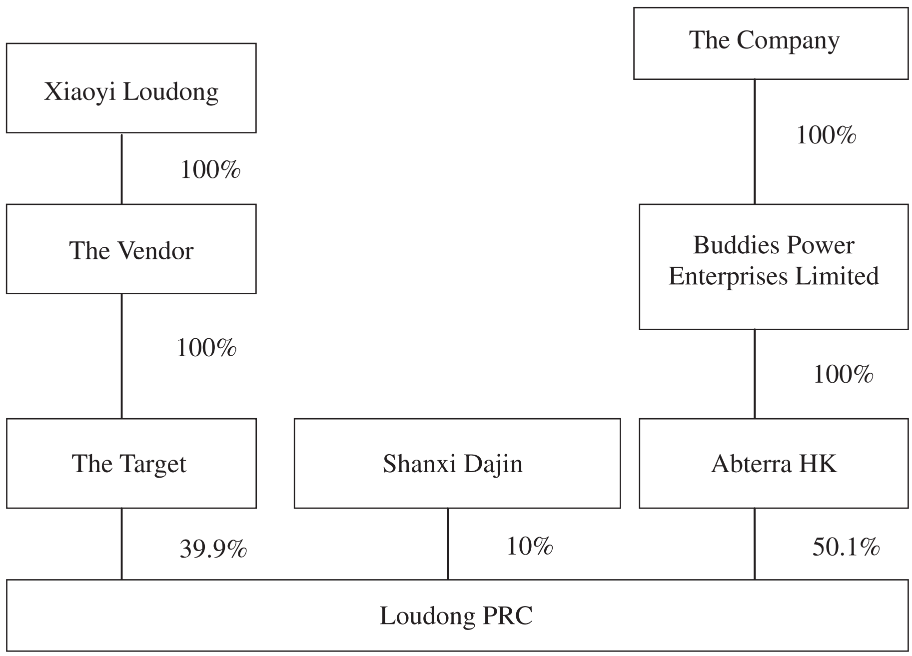
Loudong PRC's coal purchases are primarily from several coal mines. There was some concentration of coal purchase risk as about 36%, 72%, 20% on total coal purchases for the year ended 31 December 2009, nine-month period ended 31 December 2008 and year ended 31 March 2008 respectively, were supplied by the five largest suppliers. In the event that Loudong PRC was unable to agree on terms with these suppliers or these suppliers failed to supply the coals to meet with the production orders, Loudong PRC's production and profitability would be adversely affected. However, after the completion of acquisition of the equity interests for the coal mines pursuant to the sale and purchase agreement dated 4 May 2010 as well as the memorandum of understanding dated 4 May 2010 as announced by the Company in the announcement dated 4 May 2010, the risk will be reduced accordingly.

As the principal assets of the target under such acquisition by the Company are coal mines and license, we note that completion of the acquisition of such coal mines could bring the Group with synergy effect of vertical integration and release the Group from concentration of suppliers.

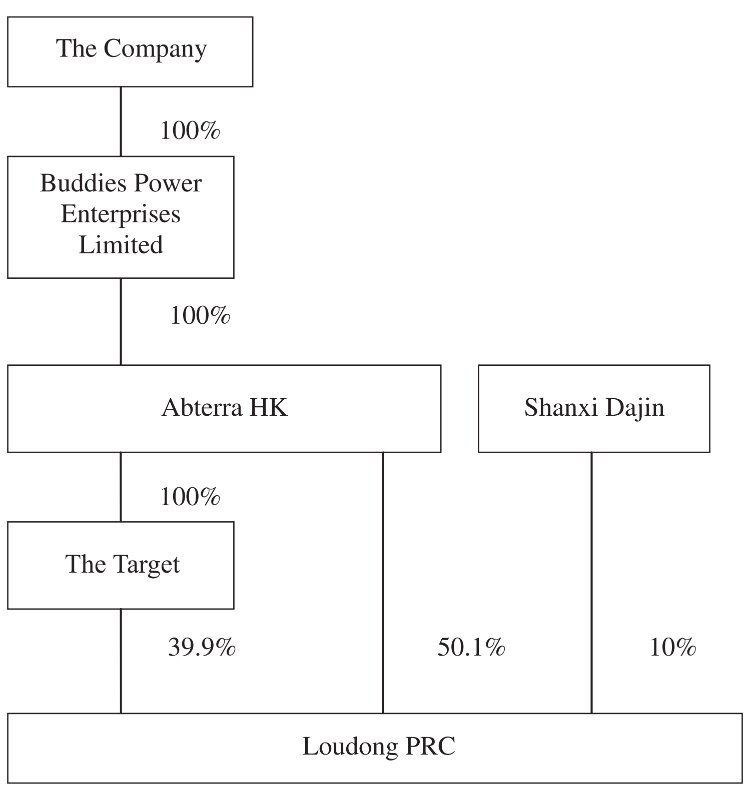
Xiaoyi Loudong Industry & Trading Group Company (孝義市樓東工貿企業集團公司) ("Xiaoyi Loudong"), the ultimate beneficial owner of the Target, was one of the promoters of Loudong PRC for its incorporation in 1994 and has been holding the 39.9% equity interests of Loudong PRC since then. The paid-in capital contributed by Xiaoyi Loudong to Loudong PRC amounted to RMB98,154,000. The Vendor is a direct wholly-owned subsidiary of Xiaoyi Loudong and the 39.9% equity interests was transferred from Xiaoyi Loudong to the Target on 4 November 2009 for the purposes of and to facilitate the Acquisition.

The following charts show the group structure of the Target Group as at the Latest Practicable Date and immediately after Completion:

As at the Latest Practicable Date



Immediately after Completion



3. Major terms of the Agreement

The Agreement

Date

9 November 2009

Parties

(i) Purchaser: Abterra HK, an indirect wholly-owned subsidiary of the Company; and

(ii) Vendor: Hing Lou Resources Limited, a connected person of the Company

As at the date of the Agreement, the Target is wholly-owned by the Vendor. Loudong PRC is owned as to 50.1% by Abterra HK, 39.9% by the Target and 10% by Shanxi Dajin International (Group) Corporation (山西大晉國際(集團)股份有限公司) ("Shanxi Dajin").

The Vendor, whose principal business is investment holding, is an indirect substantial shareholder of Loudong PRC, a non wholly-owned subsidiary of the Company and as such, the Vendor is a connected person of the Company. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, both being Directors, are also directors of the Vendor and the Target.

Assets to be acquired

Pursuant to the Agreement, Abterra HK has agreed to acquire and the Vendor has agreed to dispose of the Sale Shares, representing the entire issued share capital of the Target immediately prior to Completion.

Consideration

The consideration of HK$600,000,000 for the sale and purchase of the Sale Shares shall be settled by Abterra HK in the following manner:

(i) HK$350,000,000 shall be settled by Abterra HK in cash at Completion; and

(ii) HK$250,000,000 shall be satisfied by Abterra HK procuring the Company to issue the Convertible Bonds to the Vendor or its nominee(s) at Completion.

Please refer to the section headed "The Supplemental Agreement" in this letter for the revised settlement terms for the Consideration.

The consideration of HK$600,000,000 for the Sale Shares was determined by the Company and the Vendor with reference to (i) the consideration of HK$1,350 million of the previous acquisition of 50.1% equity interests of Loudong PRC, less the goodwill of approximately HK$621 million (i.e. approximately HK$729 million). As such, the acquisition of 39.9% equity interests of Loudong PRC is estimated at approximately HK$581 million; and (ii) as shown in the audited consolidated balance sheet of the Company as at 31 December 2009, the net assets of Loudong PRC was approximately RMB1,500 million (i.e. approximately HK$1,705 million). As such, 39.9% equity interests of Loudong PRC are estimated at approximately HK$680 million.

In order to assess the fairness and reasonableness of the Acquisition, we have attempted to compare the price-earning ratio ("PE") and price to net asset value ratio ("PB") with market comparables in the industry engaging in similar business of the Target Group. Based on the aforesaid, we have collected 19 market comparables. A summary of the information is listed as below:

(1) Companies listed on the Stock Exchange engaging in coal processing business

No.	Company name	Stock code	PB*	PE*
1	China Coal Energy Co. Ltd.	1898	2.59	21.15
2	Fushan International Energy Group Limited	639	2.69	37.78
3	Hidili Industry International Development Limited	1393	2.73	15.88

(2) Companies listed on the Shanghai Stock Exchange engaging in coal processing business

No.	Company name	Stock code	PB*	PE*
1	Shanghai Datun Energy Resources Co. Ltd.	600508	4.12	15.29
2	Datong Coal Industry Company Limited	601001	5.87	18.55
3	Shan Xi Guo Yang New Energy Company Limited	600348	9.05	28.84
4	Shanxi Lu'an Environmental Energy Development Company Limited	601699	6.94	19.10
5	Anhui Hengyuan Coal Industry Company Limited	600971	4.23	22.49
6	Pingdingshan Tianan Coal. Mining Co., Ltd	601666	3.61	12.57

No.	Company name	Stock code	PB*	PE*
7	Guizhou Panjiang Refined Coal Company Limited	600395	8.03	26.58
8	SDIC Xinji Eenergy Co., Ltd	601918	6.52	30.62
9	Kailuan Energy Chemical Co., Ltd	600997	3.51	16.80
10	Yanzhou Coal Mining Company Limited	600188	3.80	15.45
11	Yunnan Yunwei Company Limited	600725	3.19	37.96
12	Anyuan Industrial Co., Ltd	600397	9.14	Not available since loss making

(3) Companies listed on the Shenzhen Stock Exchange engaging in coal processing business

No.	Company name	Stock code	PB*	PE*
1	Inner Mongolia Ping Zhuang Energy Resources Company Limited	000780	5.64	20.28
2	Jizhong Energy Resources Company Limited	000937	5.27	15.10
3	Huolinhe Opencut Coal Industry Corporation Limited	002128	9.61	31.32
4	Shanxi Xishan Coal and Electricity Power Company Limited	000983	10.09	26.88
	Average		5.61	29.47
	Maximum		10.09	37.96
	Minimum		2.59	12.57
	The Company (based on the financial information of Loudong PRC for the nine months 31 December 2008)**		1.07	5.38
	The Company (including the Acquisition and the First Acquisition, based on the financial information of Loudong PRC for the nine months ended 31 December 2008)***		1.76	8.86
	The Company (based on the financial information of Loudong PRC for the year ended 31 December 2009)#		0.88	5.02
	The Company (including the Acquisition and the First Acquisition, based on the financial information of Loudong PRC for the year ended 31 December 2009) ##		1.45	8.27

* The PB is derived by dividing the share price on 9 November 2009 (date of the Agreement) by the net asset value per share extracted from the 2008 annual results of the comparable companies. The PE is derived by dividing the share price on 9 November 2009 (date of the Agreement) by the earnings per share extracted from the 2008 annual results of the comparable companies.

** The PB of the Acquisition is derived by dividing the Consideration by the audited net asset value of Loudong PRC as at 31 December 2008 = (HK$600,000,000/39.9%)/(RMB1,236,024,000/0.88) = 1.07 times. The PE of the Acquisition is derived by dividing the Consideration by the annualized net profit of Loudong PRC for the year ended 31 December 2008 (which is derived by annualizing the audited profit of Loudong PRC for the nine months ended 31 December 2008 (the "Annualized Profit"), i.e. RMB184,478,000/9 months * 12 months = RMB245,971,000) = (HK$600,000,000/39.9%)/(RMB245,971,000/0.88) = 5.38 times.

*** The PB of the aggregation of the Acquisition and the First Acquisition (the "Aggregate Acquisition") is derived by dividing the aggregation of the Consideration and the consideration of the First Acquisition (the "Aggregate Consideration"), being (HK$1,350,000,000 + HK$280,000,000 + HK$600,000,000 = HK$2,230,000,000) by the audited net asset value of Loudong PRC as at 31 December 2008 = (HK$2,230,000,000/90%)/(RMB1,236,024,000/0.88) = 1.76 times. The PE of the Aggregate Acquisition is derived by dividing the Aggregate Consideration by the Annualized Profit of Loudong PRC for the year ended 31 December 2008 = (HK$2,230,000,000/90%)/(RMB245,971,000/0.88) = 8.86 times.

The PB of the Acquisition is derived by dividing the Consideration by the audited net asset value of Loudong PRC as at 31 December 2009 = (HK$600,000,000/39.9%)/(RMB1,499,657,000/0.88) = 0.88 times. The PE of the Acquisition is derived by dividing the Consideration by the net profit of Loudong PRC for the year ended 31 December 2009 = (HK$600,000,000/39.9%)/(RMB263,634,000/0.88) = 5.02 times.

The PB of the Aggregate Acquisition is derived by dividing the aggregation of the Aggregate Consideration, by the audited net asset value of Loudong PRC as at 31 December 2009 = (HK$2,230,000,000/90%)/(RMB1,499,657,000/0.88) = 1.45 times. The PE of the Aggregate Acquisition is derived by dividing the Aggregate Consideration by the net profit of Loudong PRC for the year ended 31 December 2009 = (HK$2,230,000,000/90%)/(RMB263,634,000/0.88) = 8.27 times.

As shown by the above table, the 19 comparables have PB ranging from approximately 2.59 to 10.09 and PE ranging from approximately 12.57 to 37.96. Based on the financial information of Loudong PRC for the nine months ended 31 December 2008, the PB and PE of the Acquisition by the Company are approximately 1.07 and 5.38 respectively and the PB and PE of the Aggregate Acquisition are approximately 1.76 and 8.86 respectively and based on the financial information of Loudong PRC for the year ended 31 December 2009, the PB and PE of the Acquisition by the Company are approximately 0.88 and 5.02 respectively and the PB and PE of the Aggregate Acquisition are approximately 1.45 and 8.27 respectively, which falls outside the above market range and are below the average of the 19 comparables. After discussion with the Directors, they are of the view that the Consideration is reached after arm's length negotiation with the Vendor and is fair and reasonable. They consider the PB and PE of the Acquisition are reasonable taken into account the Vendor is selling 39.9% minority interests of Loudong PRC. Considering the PB and PE are for acquiring a minority stake in Loudong PRC and better than average terms for acquisition of equity interests in coal processing business, we are of the view that a lower than the average PB and PE are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Based on the above, we are of the view that the basis of the Consideration is on normal commercial terms and fair and reasonable so far as the Group and the Independent Shareholders are concerned.

Source of funding

As referred to the letter from the board, cash portion of the Consideration will be financed by the fund raising activities ("Fund Raising Activities") including by way of placing or possible issue of new Shares by the Company or loans or other credit facilities to be extended to the Group. The amount to be raised in the Fund Raising Activities shall not be less than the cash portion of the Consideration. Completion of the Fund Raising Activities is one of the conditions precedent to Completion. In this regard, please refer to the paragraph headed "Conditions precedent" below.

Conditions precedent

The Agreement is conditional upon:

(a) the passing by the Independent Shareholders at the SGM of the resolution approving the Agreement and the transactions contemplated by the Agreement, in particular, the issue of the Convertible Bonds and the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds;

(b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares;

(c) Abterra HK being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;

(d) Abterra HK receiving satisfactory PRC legal opinion issued by Global law office confirming amongst other things, (i) all necessary consents and approvals from relevant PRC governmental authorities and any third parties have been obtained in respect of the Agreement; and (ii) the Target is legally and beneficially owns 39.9% equity interests in Loudong PRC; (iii) the operation and the business of the Loudong PRC are in compliance with all PRC laws and regulations; and (iv) any other matters which Abterra HK may reasonable require;

(e) the completion of the Fund Raising Activities;

(f) the warranties in respect of the operation of the Target Group given by the Vendor under the Agreement remaining true and accurate and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the Agreement and Completion;

(g) the Vendor having complied fully with the obligations in the Agreement and otherwise having performed in all material respects all the covenants and agreements required to be performed by it under the Agreement;

(h) all necessary consents being granted by third parties (including governmental or official authorities) for the sale and purchase of the Sale Shares and other transactions contemplated herein, and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of any member of the Target Group after Completion having been proposed, enacted or taken by any governmental or official authority;

(i) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Agreement and the matters contemplated thereunder having been obtained; and

(j) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Conversion Shares.

The Purchaser may waive both or any of the conditions (f) and (g) above. The conditions (a), (b), (c), (d), (e), (h), (i) and (j) above are incapable of being waived.

As at the Latest Practicable Date, conditions (c), (d), (i) and (j) have been fulfilled.

If the conditions have not been satisfied on or before 12:00 noon on 30 April 2010, or such later date (the "Long Stop Date") as Abterra HK and the Vendor may agree, the Agreement shall cease and determine, and thereafter neither party to the Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Please refer to the section headed "The Supplemental Agreement" in this letter of which the Long Stop Date has been extended to 31 August 2010.

Completion

Completion shall take place at 4:00 p.m. on the date falling on the second Business Day after the fulfillment of the conditions of such later date as may be agreed between Abterra HK and the Vendor.

Before the Acquisition, Loudong PRC is an indirect non wholly-owned subsidiary of the Company and the Company is interested in 50.1% of the equity interests of Loudong PRC. Upon Completion, Loudong PRC will remain an indirect non wholly-owned subsidiary of the Company and the Company is interested in 90% of the equity interests of Loudong PRC and the accounts of the Target Group will continue to be consolidated with that of the Group.

The Supplemental Agreement

Date: 25 May 2010

Parties: (i) Purchaser: Abterra HK, an indirect wholly-owned subsidiary of the Company; and

(ii) Vendor: Hing Lou Resources Limited, a connected person of the Company

Revised settlement terms for the Consideration

The consideration of HK$600,000,000 for the sale and purchase of the Sale Shares shall be settled in the following manner:

(a) HK$290,000,000 shall be satisfied by Abterra HK in cash at Completion;

(b) HK$250,000,000 shall be satisfied by Abterra HK procuring the Company to issue the Convertible Bonds to the Vendor at Completion; and

(c) HK$60,000,000 shall be satisfied by Abterra HK procuring the Company to issue the Promissory Note (as defined below) to the Vendor or at Completion.

Other than the settlement terms mentioned above, the terms of the Consideration remain unchanged.

The revised settlement terms for the Consideration was arrived at after arm's length negotiations between Abterra HK and the Vendor. In view of the revised settlement terms for the Consideration which (i) reduce the immediate cash payment by the Company upon Completion; and (ii) the Promissory Note is interest-free, the Directors (including the independent non-executive Directors) consider the revision to be fair and reasonable and that the Supplemental Agreement is on normal commercial terms and its terms are fair and reasonable and the entering into of the Supplemental Agreement is in the interests of the Group and the Shareholders as a whole.

In view of the revised terms which include: (1) reduce the immediate cash payment by the Company upon Completion; and (2) the Promissory Note is interest-free, we concur with the views of the Directors that the Supplemental Agreement is on normal commercial terms and its terms are fair and reasonable and the entering into of the Supplemental Agreement is in the interests of the Group and the Shareholders as a whole.

Revised conditions precedent and Long Stop Date

The conditions precedent and the Long Stop Date as set out in the Agreement have been amended as follows:

(a) Condition Precedent

The passing by the Independent Shareholders at the SGM of the resolutions approving the Agreement, the Supplemental Agreement and the transactions contemplated by the Agreement, the Supplemental Agreement, in particular, the issue of the Convertible Bonds and the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds and the issue of the Promissory Note.

(b) Long Stop Date

Each of the Vendor and Abterra HK shall use its best endeavours to procure the fulfillment of the conditions precedent set out in the Agreement (as amended by the Supplemental Agreement) on or before 31 August 2010 (or such later date as the Purchaser and the Vendor may agree in writing).

Other than the above condition and the Long Stop Date, the other conditions precedent remain unchanged.

The Promissory Note

The Company shall issue a promissory note in a principal amount of HK$60,000,000 the ("**Promissory Note**") in favour of the Vendor as part of the Consideration at Completion. The Promissory Note bears no interest and repayable in one lump sum on maturity of three years. The Company has the right to redeem the Promissory Note prior to its maturity in integral multiples of HK$1,000,000. The Promissory Note may, with prior written notice given by the Vendor to the Company, be freely transferable and assignable to any Independent Third Parties in whole or in integral multiples of HK$1,000,000 and in whole only if the outstanding principal sum of the Promissory Note is less than HK$1,000,000.

Terms of Convertible Bonds

The terms of the Convertible Bonds have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK$250,000,000

Interest

The Convertible Bonds shall not bear any interest.

Maturity

A fixed term of three years from the date of issue of the Convertible Bonds. Unless previously redeemed, converted or cancelled as provided in the agreement pursuant to which the Convertible Bonds are to be issued, the Company shall redeem the outstanding principal amount of the Convertible Bonds on the maturity date.

The Company may at any time before the maturity date of the Convertible Bonds by serving prior written notice on the Bondholder(s) with the total amount proposed to be redeemed from the Bondholder(s) specified therein, redeem the Convertible Bonds (in whole or in part) at par.

Conversion

Under the terms of the Convertible Bonds, the Bondholder(s) shall exercise conversion rights attached to the Convertible Bonds from the date of issue of the Convertible Bonds to the maturity date except if, immediately following the conversion:

(a) the Company will be unable to meet the public float requirement under the Listing Rules; and

(b) the Bondholder(s) together with the parties acting concert with it will hold or control such an amount of the Company's voting power at general meetings as may trigger a mandatory general offer under the Takeovers Code (whether or not a waiver of the mandatory general offer obligation has been granted).

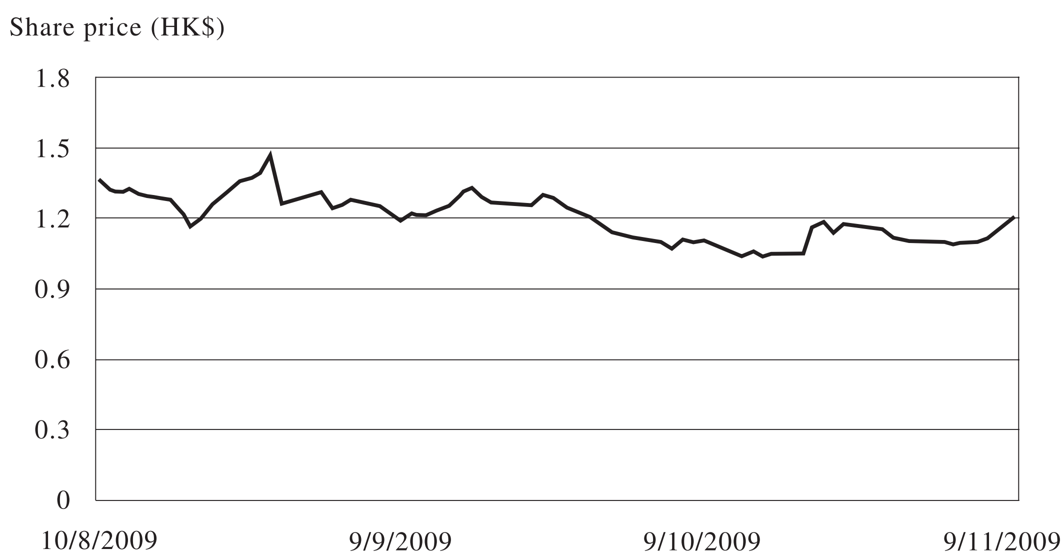
Convertible Price

The Conversion Price is HK$1.50 per Conversion Share subject to the adjustment events which will arise as a result of certain changes in the share capital of the Company including to consolidation or sub-division of the Shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in cash by the Company, subsequent issue of securities for acquisition of assets by the Company, issue of Shares by way of rights or grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares, such issue of Shares and securities shall be at a price per Share which is less than 95 per cent. of the average closing price per Share quoted on the daily quotation sheet of the Stock Exchange for the five (5) trading days immediately preceding such date of the announcement of the terms.

The Conversion Price represents: (i) a premium of approximately 25.00% over the closing price of HK$1.20 per Share as quoted on the Stock Exchange on 9 November 2009, being the date of the Agreement; (ii) a premium of approximately 33.93% over the average of the closing prices of approximately HK$1.120 per Share as quoted on the Stock Exchange for the last five trading days up to and including 9 November 2009, being the date of the Agreement; (iii) a premium of approximately 34.17% over the average of the closing prices of HK$1.118 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 9 November 2009, being the date of the Agreement; (iv) a premium of approximately 21.95% over the average of the closing prices of HK$1.23 per Share as quoted on the Stock Exchange as at the Latest Practicable Date and (v) a premium of approximately 25.00% over the net asset value per Share of HK$1.20 based on the audited consolidated financial statements of the Group as at 31 December 2009 dividing the existing issued share capital of 1,485,947,811 Shares as at the Latest Practicable Date.

The Conversion Price was determined by Abterra HK and the Vendor on an arm's length basis with reference to the current market price of the Shares and the duration of the Convertible Bonds.

The share price movement for the three months preceding the date of the Agreement is depicted as below:



Source: the Stock Exchange

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bonds in the aggregate principal amount of HK$250,000,000 at the Conversion Price by the Bondholder(s), the Company will issue an aggregate of 166,666,666 new Shares, representing approximately (i) 11.22% of the existing issued share capital of the Company; and (ii) 10.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM.

Ranking

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion notice.

Status of the Convertible Bonds

The Convertible Bonds constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Transferability

The Bondholder(s) may assign or transfer the Convertible Bonds to Independent Third Parties in whole or in part in integral multiples of HK$1,000,000 or if the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000, the whole but not part of the Convertible Bonds may be assigned or transferred.

Voting rights

The Convertible Bonds do not confer any voting rights at any meetings of the Company.

Application for listing

No application will be made by the Company for the listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

In order to assess the fairness and reasonableness of the terms of the Convertible Bonds, to the best of our knowledge, we have looked into recent issues of convertible notes/bonds by 17 companies listed on the Main Board and GEM of the Stock Exchange which have made announcements for acquisition of assets by issuing convertible notes/bonds as part of the acquisition consideration (the "CB Comparables") from 10 August 2009 up to and including 9 November 2009 (the "Review Period"), being the date of the Agreement, for reference, we have studied the terms of those respective acquisitions as stated in their announcements, especially the terms of the convertible notes/bonds as a settlement method. As (i) the terms of the CB comparables are determined under similar market conditions and sentiments under the Review Period which include listed issuers issue convertible notes/bonds as an acceptable settlement methods for acquisition of assets, bargaining power of both sellers and buyers of assets to determine the interest, maturity of convertible notes/bonds and respective conversion price and optimal capital structure of listed issuers to avoid immediate dilution effect on the shareholdings of public shareholders, etc.; (ii) the convertible notes/bonds were long term in nature with maturity over 1 year; and (iii) the issue of convertible notes/bonds were for acquisition of assets, we believe that the CB Comparables may reflect the recent trend of the terms of convertible notes/bonds in the market and consider the CB Comparables are fair and representative samples to compare the Convertible Bonds. A summary of the information is listed as below:

No.	Company name	Stock code	Date of announcement	Principal amount (HK$ million)	Interest per annum (%)	Maturity (years)	Premium/ (discount) over/to the last trading day prior to the date of the corresponding announcement (%)	Premium/ (discount) over/to the average of the last 5 trading days prior to the date of the corresponding announcement (%)
1	Asia Resources Holdings Limited	899	3 November 2009	546.75	Nil	7	(20.00)	(14.00)
2	Vision Tech International Holdings Limited	922	22 October 2009	1,190.00	Nil	10	29.63	22.81
3	China Digital Licensing (Group) Limited	8175	15 October 2009	26.90	Nil	5	(27.69)	(27.69)
4	Asia Coal Limited	835	11 October 2009	2,340.00	Nil	5	(43.70)	(42.90)
5	Apollo Solar Energy Technology Holdings Limited	566	1 October 2009	3,814.95	Nil	4	1.23	0.00
6	Bright International Group Limited	1163	27 September 2009	6,950.00	Nil	3	(9.09)	(3.54)
7	Sino-Tech International Holdings Limited	724	23 September 2009	950.40	Nil	5	(68.40)	(63.70)
8	King Stone Energy Group Limited	663	23 September 2009	1,855.00	Nil	5	(69.20)	(64.80)
9	New Environmental Energy Holdings Limited	3989	23 September 2009	676.04	Nil	5	22.45	53.06
10	ChinaVision Media Group Limited	1060	22 September 2009	350.00	Nil	3	135.29	144.40
11	Buildmore International Limited	108	16 September 2009	273.00	Nil	3	(22.94)	(19.62)

No.	Company name	Stock code	Date of announcement	Principal amount (HK$ million)	Interest per annum (%)	Maturity (years)	Premium/ (discount) over/to the last trading day prior to the date of the corresponding announcement (%)	Premium/ (discount) over/to the average of the last 5 trading days prior to the date of the corresponding announcement (%)
12	Winbox International (Holdings) Limited	474	7 September 2009	980.22 *(Note 1)*	Nil	5	(26.67)	(24.40)
13	Broad Intelligence International Pharmaceutical Holdings Limited	1149	4 September 2009	1,179.85	Nil	5	(1.52)	(7.67)
14	EPI (Holdings) Limited	689	25 August 2009	2,311.52	Nil	20	(28.10)	(33.20)
15	Ming Fung Jewellery Group Limited	860	25 August 2009	190.00	3	1.5	1.12	0.45
16	Sino Union Energy Investment Group Limited	346	14 August 2009	2,300.00	Nil	3	3.40	0.00
17	Poly development Holdings Limited	1141	11 August 2009	1,360.09	Nil	5	(16.72)	0.00
	Average				**5.56**		**(8.29)**	**(4.75)**
	Maximum				**20**		**135.29**	**144.40**
	Minimum				**1.5**		**(69.20)**	**(64.80)**
	The Company				**3**		**25.00**	**33.93**

Note:

1. Pursuant to the relevant announcement of Winbox International (Holdings) Limited, the aggregate principal amount was US$126.48 million which has converted into HK$ based on the exchange rate of US$1 = HK$7.75 for illustration purposes.

As shown by the above table, the conversion period of the convertible notes/bonds of the CB Comparables ranges from 1.5 years to 20 years and the conversion prices of the convertible notes/bonds of the CB Comparables, which (i) ranges from a discount of approximately 69.20% to a premium of approximately 135.29% over the closing price as at the last trading day prior to the release of the relevant announcement; and (ii) ranges from a discount of approximately 64.80% to a premium of approximately 144.40% over the average closing price of the last 5 trading days prior to the release of the relevant announcement. Accordingly, the three-year conversion period of the Convertible Bonds falls within the said market range and is below average of that of the CB Comparables and the Conversion Price, which represents (i) a premium of approximately 25% over the closing price of HK$1.20 per Share as quoted on the Stock Exchange on 9 November 2009 and (ii) a premium of approximately 33.93% over the average closing price of approximately HK$1.12 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 9 November 2009, falls within the said market range and is above average of that of the CB Comparables.

Having considered the historical share price performance of the Company for the three months preceding the date of the Agreement is ranging from HK$1.04 to HK$1.47 and the market analysis as detailed above, we are of the view that the Conversion Price which is determined with reference to the current market price of the Shares prior to the date of the Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

In light of (i) the premium represented by the Conversion Price to the closing price on the last trading day and average closing price for the last 5 trading days up to and including 9 November 2009 falls within the relevant ranges of the CB Comparables; (ii) the Convertible Bonds are non-interest bearing; and (iii) the Convertible Bonds have three-year conversion period which falls within the range and is below the average of the CB Comparables; and (iv) the Convertible Bonds will not have any immediate dilution effect on the Shareholders since it will be issued at a premium, we are of the view that the terms of the Convertible Bonds are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

In relation to other terms of the Agreement, we have also reviewed them and are not aware of any terms which are uncommon to normal market practice. In light of this, we consider that the terms of the Agreement and the Supplemental Agreement (including those on the Consideration, the Convertible Bonds, the Conversion Price, other terms of the Convertible Bonds and the issue of the Promissory Note) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

4. Potential dilution to the shareholding of the Independent Shareholders

As at the Latest Practicable Date, the Company has 1,485,947,811 Shares in issue. In addition, on 9 July 2009, the Company has issued a total of 21,700,000 share options to certain Directors and employees of the Company with exercise price at HK$0.886 per option from 9 January 2010 to 24 June 2017. On 11 January 2010, as a result of the Open Offer, the total number of share options granted was adjusted to 24,584,971 with adjusted subscription price of HK$0.782 per share option. Thereafter, 1,019,654 share options were exercised by the holders and 226,590 share options have lapsed respectively. As a result, as at the Latest Practicable Date, 23,338,727 share options remain outstanding, of which 22,658,957 share options become exercisable from 9 January 2010 while the balance of 679,770 share options become exercisable from 9 July 2010. Save for the share options mentioned above, there are no outstanding warrants; share option; or securities or derivatives that are convertible or exchangeable into Shares or confer any right to subscribe for Shares as at the Latest Practicable Date.

The Vendor and General Nice Resources (Hong Kong) Limited ("GNR"), the substantial shareholder, are parties acting in concert with each others, due to their former direct equity ownership in Loudong PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries: (i) there is no direct relationship and no business dealings between each of the Vendor and GNR and their concert parties; and (ii) there is no arrangement, understanding, agreements or negotiations regarding the Acquisition between each of the Vendor and GNR and their concert parties.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following table sets out the current shareholdings in the Company and these possible scenarios, based on conversion of the Convertible Bonds:

a) the Vendor and its concert parties convert the Convertible Bonds to shares up to the point before triggering a mandatory take-over offer.

b) the Vendor and their concert parties convert all of the Convertible Bonds.

Shareholders	As at the Latest Practicable Date and before Completion		Immediately after Completion and conversion of the Convertible Bonds and immediately before triggering a mandatory general offer obligation under the present provisions of the Takeovers Code *(Note 3)*		Immediately after Completion and full conversion of the Convertible Bonds (for illustration purpose only) *(Note 4)*	
	Number of Shares	*Appr.%*	*Number of Shares*	*Appr.%*	*Number of Shares*	*Appr.%*
GNR and its concert parties	278,376,383	18.73%	278,376,383	17.15%	278,376,383	16.84%
The Vendor and its concert parties	69,897,483	4.70%	206,879,855	12.75%	236,564,149	14.32%
Subtotal	348,273,866	23.43%	485,256,238	29.90%	514,940,532	31.16%
Lau Yu *(Note 1)*	7,342,000	0.50%	7,342,000	0.45%	7,342,000	0.44%
Li Xiao Juan *(Note 2)*	630,000	0.04%	630,000	0.04%	630,000	0.04%
Public Shareholders	1,129,701,945	76.03%	1,129,701,945	69.61%	1,129,701,945	68.36%
Total	**1,485,947,811**	**100%**	**1,622,930,183**	**100%**	**1,652,614,477**	**100%**

Notes:

1. Mr. Lau Yu is an executive Director.

2. Ms. Li Xiao Juan is an executive Director.

3. As the ultimate beneficial owner of the Vendor was the former substantial shareholder of Loudong PRC interested in over 20% of its equity interest, the Vendor and GNR, whom also being a former substantial shareholder of Loudong PRC interested in over 20% of its equity interest, are deemed to be acting in concert with each others. As such, pursuant to the terms and conditions of the Convertible Bonds, the Bondholder(s) may exercise all or part of the Convertible Bonds provided that the issue of the relevant Conversion Shares to it/them shall not trigger any general offer obligation on the part for the relevant Bondholder who exercises the Convertible Bonds. For further details, see the paragraph headed "Terms of Convertible Bonds" in the Letter from the Board.

4. The numbers are for illustration purpose only. Pursuant to terms and conditions of the Convertible Bonds, the Bondholder(s) may exercise all or part of the Convertible Bonds provided that the issue of relevant Conversion Shares to it/them shall not trigger any general offer obligation on the part of the relevant Bondholder who exercises the Convertible Bonds. For further details, see the paragraph headed "Terms of Convertible Bonds" in the Letter from the Board.

Although the shareholding interests of the existing Independent Shareholders will be diluted in the above listed extent as a result of the full conversion of the Convertible Bonds, as balanced by (i) the potential benefits that the Acquisition would bring to the Company (the details of which has been set forth in the section headed "Reasons for the Agreement"; (ii) the terms of the Agreement and the Supplemental Agreement being fairly and reasonably set; and (iii) the shareholding interests of the existing Independent Shareholders will be diluted proportionally, we consider that the aforementioned dilution effect are acceptable.

5. Financial effects of the Acquisition

Upon Completion, Loudong PRC will remain an indirect non wholly-owned subsidiary of the Company and the Company will be interested in 90% of the equity interests of Loudong PRC and the accounts of the Target Group will continue to be consolidated with that of the Group.

Set out in appendix V to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effect of the Acquisition on (i) the results and cash flows of the Enlarged Group assuming the Completion had taken place on 1 January 2009; and (ii) on the assets and liabilities of the Enlarged Group assuming the Completion had taken place on 31 December 2009.

(i) Net asset value

Based on the unaudited pro forma consolidated balance sheet in appendix V to this circular, (i) the total assets of the Enlarged Group would decrease by approximately 1% from HK$4,359,869,000 to HK$4,318,993,000; (ii) its total liabilities would increase by approximately 10% from HK$2,574,622,000 to HK$2,822,772,000; and (iii) the net assets attributable to the Shareholders will increase by approximately 52% from approximately HK$865,096,000 to HK$1,311,822,000, as a result of the Acquisition.

(ii) Earnings

Upon Completion, the Enlarged Group will further strengthen the business in coal processing and production of coke and coal-related chemicals in China. In longer term, the Directors believe that the Group has the competitive edge to benefit from the next stage of coking consolidation program which will eliminate weaker coking players in the market in the years ahead. As material portion of revenue and profits are contributed by Loudong PRC, as a result of the Acquisition, minority interest in Loudong PRC will decrease from 49.9% to 10%, which will benefit the financial results of the Group in future. Based on the unaudited pro forma consolidated balance sheet in appendix V to this circular, profit attributable to the Shareholders will increase from approximately HK$50,414,000 to HK$154,363,000 as a result of the Acquisition.

In view of the optimistic prospects of Loudong PRC as mentioned in the section headed "2. Reasons for the Agreement", we are of the view that there will be synergetic effect under the Agreement and the Supplemental Agreement and it is a fair expectation that the Acquisition will have a positive impact on the earnings and financial position of the Group upon Completion and the Enlarged Group will benefit from the Acquisition.

RECOMMENDATIONS

Having considered the abovementioned principal factors and reasons, we consider that (i) the Agreement and the Supplemental Agreement are in the usual and ordinary course of business of the Company; and (ii) the terms of the Agreement, the Supplemental Agreement and the transactions contemplated therein are entered into upon normal commercial terms following arm's length negotiations amongst the parties and are fair and reasonable so far as the interests of the Company and the Shareholders as a whole are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed in relation to the Agreement, the Supplemental Agreement and the transactions contemplated thereunder at the forthcoming SGM.

Yours faithfully,
For and on behalf of
INCU Corporate Finance Limited
Gina Leung
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 December 2007, 2008 and 2009. A summary of the audited results, assets and liabilities of the Group as extracted from the annual reports of the Company is set out below.

	Year ended 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover	1,224,798	506,833	3,128
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	336,627	(502,219)	8,288
Income tax expense	(141,927)	(15,423)	(413)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	194,700	(517,642)	7,875
Profit/(loss) for the year from discounted operations	4,796	3,043	(5,135)
PROFIT/(LOSS) FOR THE YEAR	199,496	(514,599)	2,740
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations	2,900	(10,184)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	202,396	(524,783)	2,740
Profit attributable to:			
Owners of the parent	50,414	(563,433)	2,740
Minority interests	149,082	48,834	–
	199,496	(514,599)	2,740
Total comprehensive income attributable to:			
Owners of the parent	51,867	(568,535)	2,740
Minority interests	150,529	43,752	–
	202,396	(524,783)	2,740
ASSETS, LIABILITIES AND MINORITY INTERESTS			
TOTAL ASSETS	4,359,869	4,058,456	333,675
TOTAL LIABILITIES	(2,574,622)	(3,025,337)	(5,123)
MINORITY INTERESTS	(920,151)	(769,622)	–
	865,096	263,497	328,552

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the years ended 31 December 2007, 2008 and 2009.

Consolidated Statements of Comprehensive Income

Years ended 31 December 2007, 2008 and 2009

		2009	**2008**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS				
REVENUE	*5*	1,224,798	506,833	3,128
Cost of sales		(778,276)	(293,111)	(2,010)
Gross profit		446,522	213,722	1,118
Other income	*5*	118,789	15,421	12,812
Selling and distribution costs		(53,494)	(48,003)	–
Administrative expenses		(67,148)	(69,153)	(5,488)
Other operating expenses	*6*	(27,309)	(11,415)	–
Goodwill impairment loss	*20*	–	(571,139)	–
Finance costs	*7*	(80,733)	(31,652)	(154)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	*8*	336,627	(502,219)	8,288
Income tax expense	*11*	(141,927)	(15,423)	(413)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		194,700	(517,642)	7,875
DISCONTINUED OPERATIONS				
Profit/(loss) for the year from discontinued operations	*13*	4,796	3,043	(5,135)
PROFIT/(LOSS) FOR THE YEAR		199,496	(514,599)	2,740

	Notes	2009 HK$'000	2008 HK$'000	2007 HK$'000
OTHER COMPREHENSIVE INCOME				
Exchange differences on translation of foreign operations		2,900	(10,184)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		202,396	(524,783)	2,740
Profit attributable to:				
Owners of the parent		50,414	(563,433)	2,740
Minority interests		149,082	48,834	–
		199,496	(514,599)	2,740
Total comprehensive income attributable to:				
Owners of the parent		51,867	(568,535)	2,740
Minority interests		150,529	43,752	–
		202,396	(524,783)	2,740
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14			
Basic				
– For profit/(loss) for the year		HK$0.07	HK$(1.35)	HK$0.01
– For profit/(loss) from continuing operations		HK$0.07	HK$(1.36)	HK$0.03
Diluted				
– For profit/(loss) for the year		HK$0.07	N/A	N/A
– For profit/(loss) from continuing operations		HK$0.07	N/A	N/A

Consolidated Statements of Financial Position

31 December 2007, 2008 and 2009

	Notes	2009 HK$'000	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	15	2,266,238	2,494,182	13,836
Investment properties	16	11,199	9,660	13,568
Land held for development		–	–	60,941
Prepaid land premiums	17	50,716	37,772	69,058
Interests in an associate	18	5,792	5,783	–
Available-for-sale investments	19	5,679	5,443	–
Goodwill	20	330,083	50,083	2,811
Other long-term assets	21	200,000	–	–
Deferred tax assets	22	6,814	20,865	1,605
TOTAL NON-CURRENT ASSETS		2,876,521	2,623,788	161,819
CURRENT ASSETS				
Inventories	24	473,849	256,304	–
Trade and bills receivables	25	184,908	221,530	2,659
Prepayments, deposits and other receivables	26	595,374	493,183	5,986
Equity investments at fair value through profit or loss	27	568	7,074	–
Amounts due from related companies	43	34,673	5,028	–
Pledged deposits	28	134,908	294,579	–
Cash and cash equivalents	28	59,068	13,746	163,211
		1,483,348	1,291,444	171,856
Assets of a disposal group classified as held for sale	13	–	143,224	–
Total current assets		1,483,348	1,434,668	171,856
CURRENT LIABILITIES				
Trade and bills payables	29	244,819	494,882	–
Other payables and accruals	30	212,183	296,408	1,133
Interest-bearing bank and other borrowings	31	222,095	306,158	85
Amounts due to related companies	43	6,592	8,443	–
Amounts due to a shareholder	43	291,223	987	–
Amount due to a director	43	12	–	–
Tax payable		274,540	244,904	229

	Notes	2009 HK$'000	2008 HK$'000	2007 HK$'000
		1,251,464	1,351,782	1,447
Liabilities directly associated with the assets classified as held for sale	13	–	224	–
Total current liabilities		1,251,464	1,352,006	1,447
NET CURRENT ASSETS		231,884	82,662	170,409
TOTAL ASSETS LESS CURRENT LIABILITIES		3,108,405	2,706,450	332,228
NON-CURRENT LIABILITIES				
Long-term bank loans	31	9,532	3,550	3,676
Loans from related companies	43	524,840	747,898	–
Loan from a shareholder	43	–	830	–
Loans from non-financial institutions	31	13,606	24,402	–
Convertible notes	32	638,117	868,953	–
Tax payable	11	89,108	–	–
Other long-term payables	11	13,429	–	–
Deferred tax liabilities	22	34,526	27,698	–
TOTAL NON-CURRENT LIABILITIES		1,323,158	1,673,331	3,676
NET ASSETS		1,785,247	1,033,119	328,552
EQUITY				
Equity attributable to owners of the parent				
Share capital	33	9,912	5,331	3,611
Equity component of convertible notes	32	107,436	153,480	–
Exchange realignment		(3,649)	(5,102)	–
Reserves	35(a)	751,397	109,788	324,941
		865,096	263,497	328,552
Minority interests		920,151	769,622	–
TOTAL EQUITY		1,785,247	1,033,119	328,552

Consolidated Statements of Changes in Equity

Years ended 31 December 2007, 2008 and 2009

	Attributable to owners of the parent									
	Share capital	Equity component of convertible notes	Share option reserve	Exchange realignment	Share premium account	Capital reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	2,241	–	–	–	198,655	1,026	(17,193)	184,729	–	184,729
Issue of ordinary shares through rights issue	1,120	–	–	–	110,918	–	–	112,038	–	112,038
Issue of ordinary shares through placement	250	–	–	–	29,750	–	–	30,000	–	30,000
Share issue expenses	–	–	–	–	(955)	–	–	(955)	–	(955)
Total comprehensive income for the year	–	–	–	–	–	–	2,740	2,740	–	2,740
At 31 December 2007 and at 1 January 2008	3,611	–	–	–	338,368	1,026	(14,453)	328,552	–	328,552
At 1 January 2008	3,611	–	–	–	338,368	1,026	(14,453)	328,552	–	328,552
Issue of ordinary shares through placement	1,720	–	–	–	348,280	–	–	350,000	–	350,000
Issue of convertible notes	–	153,480	–	–	–	–	–	153,480	–	153,480
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	725,870	725,870
Total comprehensive income for the year	–	–	–	(5,102)	–	–	(563,433)	(568,535)	43,752	(524,783)
At 31 December 2008 and at 1 January 2009	5,331	153,480	–	(5,102)	686,648	1,026	(577,886)	263,497	769,622	1,033,119
Issue of ordinary shares through rights issue	2,132	–	–	–	136,704	–	–	138,836	–	138,836
Issue of ordinary shares through placement	1,065	–	–	–	130,442	–	–	131,507	–	131,507
Conversion of convertible notes	1,384	(46,044)	–	–	313,964	–	–	269,304	–	269,304
Equity-settled share option arrangements	–	–	10,085	–	–	–	–	10,085	–	10,085
Transfer to reserve	–	–	–	–	–	11,985	(11,985)	–	–	–
Total comprehensive income for the year	–	–	–	1,453	–	–	50,414	51,867	150,529	202,396
At 31 December 2009	9,912	107,436	10,085*	(3,649)	1,267,758*	13,011*	(539,457)*	865,096	920,151	1,785,247

* These reserve accounts comprise the consolidated reserves of HK$751,397,000 (2008: HK$109,788,000 and 2007: HK$324,941,000) in the consolidated statement of financial position.

Consolidated Statements of Cash Flows

Years ended 31 December 2007, 2008 and 2009

	Notes	2009 HK$'000	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax:				
From continuing operations		336,627	(502,219)	8,288
From discontinued operations	13	5,944	2,435	(5,202)
Adjustments for:				
Finance costs excluding interest on convertible notes	7	17,172	9,219	154
Share of profit of an associate	18	(9)	–	–
Interest income	5	(6,882)	(8,323)	(5,225)
Loss on disposal of items of property, plant and equipment	8	38	1,189	–
Loss on disposal of a subsidiary		–	–	67
Fair value gain, net:				
Equity investments at fair value through profit or loss		(2,487)	107	–
Depreciation	15	98,744	27,379	2,964
Changes in fair value of investment properties	16	(1,539)	4,207	(7,489)
Amortisation of prepaid land premiums	17	1,022	1,341	1,063
(Reversal)/provision for inventories	8	(18,176)	18,176	–
(Reversal)/provision for trade receivables	25	(38,096)	5,543	–
Equity-settled share option expenses	34	10,085	–	–
Goodwill impairment	20	–	571,139	–
Interest accrual for convertible notes	7	63,561	22,433	–
		466,004	152,626	(5,380)
Increase in inventories		(199,369)	(115,121)	–
Decrease/(increase) in trade and bills receivables		74,718	(2,433)	(4,228)
(Increase)/decrease in prepayments, deposits and other receivables		(12,049)	140,850	–
(Increase)/decrease in amounts due from related parties		(29,645)	139,171	–
Decrease in an amount due from shareholder		–	22,886	–
(Decrease)/increase in trade and bills payables		(186,165)	847	–
Decrease in other payables and accruals		(70,796)	(246,202)	(1,722)
Increase in an amount due to a shareholder		–	987	–
Decrease in amounts due to related companies		(1,851)	(26,386)	–
Decrease in equity investments at fair value through profit or loss		–	–	8,117
Increase in amounts due to a director		12	–	–
Cash generated from operations		40,859	67,225	(3,213)
Income tax paid		(3,452)	(1,346)	240
Net cash flows from/(used in) operating activities		37,407	65,879	(2,973)

	Notes	2009 HK$'000	2008 HK$'000	2007 HK$'000
Net cash flows from/(used in) operating activities		37,407	65,879	(2,973)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	5	6,882	8,323	5,281
Purchases of items of property, plant and equipment		(55,115)	(12,647)	(71,918)
Addition to prepaid land premiums		(13,966)	–	–
Proceeds from disposal of items of property, plant and equipment		10	3,033	–
Proceeds from disposal of prepaid land premiums		–	3,476	–
Proceeds from disposal of trading investment		8,993	–	–
Deposit paid for purchase of a subsidiary		(200,000)	–	–
Purchase of an investment property		–	(299)	–
Acquisition of a subsidiary	36	–	(114,859)	–
Proceeds from assets held for sale		143,000	–	–
Decrease in pledged deposits		159,671	–	–
Disposal of a subsidiary		–	–	865
Purchases of available-for-sale investments		(236)	(4,553)	–
Net cash flows from/(used in) investing activities		49,239	(117,526)	(65,772)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares		270,343	150,000	141,084
New bank loans		452,301	106,901	–
(Decrease)/increase in loans from related companies		(190,797)	170,866	–
Decrease in a loan from a shareholder		–	(391,326)	–
Repayment of loans from banks and non-financial institutions		(541,178)	(126,806)	(71)
Interest paid		(31,993)	(7,102)	(154)
Net cash flows from/(used in) financing activities		(41,324)	(97,467)	140,859
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		45,322	(149,114)	72,114
Cash and cash equivalents at beginning of year		13,746	163,211	91,097
Cash and short-term deposit attributable to a discontinued operation		–	(351)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		59,068	13,746	163,211
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents as stated in statement of financial position	28	59,068	13,746	163,211
Cash and short term deposits attributable to a discontinued operation	13	–	351	–
Cash and cash equivalents as stated in statement of cash flows		59,068	14,097	163,211

Statements of Financial Position – Company
31 December 2007, 2008 and 2009

	Notes	2009 HK$'000	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment		52	–	–
Amounts due from subsidiaries	23	778,866	778,861	–
Investments in subsidiaries	23	–	78	78
TOTAL NON-CURRENT ASSETS		778,918	778,939	78
CURRENT ASSETS				
Prepayments, deposits and other receivables		292	290	301
Amount due from a related company		29,564	–	–
Amounts due from subsidiaries	23	488,090	212,007	157,739
Cash and cash equivalents	28	4,417	5	161,133
TOTAL CURRENT ASSETS		522,363	212,302	319,173
CURRENT LIABILITIES				
Other payables and accruals		735	633	865
Amounts due to subsidiaries		1,740	–	–
Amount due to a shareholder		11,223	–	–
Amounts due to related companies		584	–	–
TOTAL CURRENT LIABILITIES		14,282	633	865
NET CURRENT ASSETS		508,081	211,669	318,308
TOTAL ASSETS LESS CURRENT LIABILITIES		1,286,999	990,608	318,386
NON-CURRENT LIABILITIES				
Convertible notes	32	638,117	868,953	–
TOTAL NON-CURRENT LIABILITIES		638,117	868,953	–
NET ASSETS		648,882	121,655	318,386
EQUITY				
Share capital	33	9,912	5,331	3,611
Equity component of convertible notes	33	107,436	153,480	–
Reserves	35(b)	531,534	(37,156)	314,775
TOTAL EQUITY		648,882	121,655	318,386

NOTES TO FINANCIAL STATEMENTS
31 December 2007, 2008 and 2009

1. CORPORATE INFORMATION

Loudong General Nice Resources (China) Holdings Limited (the "Company", formerly known as The Sun's Group Limited) was incorporated in Bermuda on 9 July 1993 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares have been listed on The Stock Exchange of Hong Kong Limited ("HKEX") since January 1994. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Unit B, 12/F., Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. Prior to 3 September 2009, the Company's subsidiaries (which together with the Company are collectively referred to as the "Group") were principally engaged in property investment and development, hotel investment and operation, securities investment and trading and general trading. On 3 September 2009, the Group acquired the entire interest in Abterra Coal and Coke Limited, a company incorporated in Hong Kong with limited liability. As a result of the acquisition, the principal business of the Group is coal processing and production of industrial coke and coal-related chemicals. The Group completed the disposal of the business segments of property investment and hotel operation on 12 January 2009 and 22 January 2009 respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. They have been prepared under the historical cost convention, except for investment properties and equity investments at fair value through profit and loss which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.3. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the Group for the years ended 31 December 2007, 2008 and 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary is accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement to the contingent consideration affects goodwill.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

All HKFRSs effective for the relevant periods together with the relevant transitional provisions have been adopted by the Group in the preparation of the Financial Information for the years ended 31 December 2007, 2008 and 2009 ("Relevant Period"), except for those new standards or interpretations that are not yet effective for the Relevant Periods.

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adoptions* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

Further information about these changes that are expected to significantly effect the Group are as follows:

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates and* HKAS 31 *Interests in Joint Ventures.*

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

It is expected that HKAS 39 will to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government related entities.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. The amendment will only have a financial impact on the Group in the event that it issues such rights, options or warrants in the future.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition* and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The interpretation will only have a material financial impact on the Group in the event that the Group undertakes such a transaction in the future.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18 and the amendment to HKFRS 8, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December 2007, 2008 and 2009. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) 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 (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Buildings	30 years
Plant facilities	30 years
Office equipment	10 years
Machinery	20 years
Vehicles	10 years
Plant infrastructure	20 years
Leasehold improvements, furniture and fixtures	5 years

Plant infrastructure comprises of installations that are integral to the operations of the plant facilities, including transportation pipes, electricity transfer systems and metering systems.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Investment properties

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

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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

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

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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

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

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible notes

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 34 to the financial statements.

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

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

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

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

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

Other employee benefits

For the Company and its subsidiaries located in Hong Kong

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries 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.

For the subsidiaries located in PRC

(i) Pension obligations

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

(ii) Medical benefit costs

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

(iii) Housing fund

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

Borrowing costs

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

Dividends

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency subsidiaries incorporated in PRC is Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and its income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of a subsidiary incorporated in PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

The Group has entered into commercial leases in respect of certain property, plant and equipment used for mining purposes. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains the significant risks and rewards of ownership of these assets which are therefore accounted for as operating leases. The carrying amount of property, plant and equipment subject to these operating leases at 31 December 2009 was HK$273,500,000 (2008: HK$449,562,000 and 2007: Nil).

Estimation uncertainty

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

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the 2008 report of an independent Hong Kong professional valuer, Vigers Appraisal & Consulting Limited and historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated. The carrying amount of property, plant and equipment at 31 December 2009 was HK$2,266,238,000 (2008: HK$2,494,182,000 and 2007: HK$13,836,000).

Provision for impairment of trade and other receivables

The Group makes provision for trade and other receivables based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed. The carrying amounts of trade and bills receivables at 31 December 2009 were HK$184,908,000 (2008: HK$221,530,000 and 2007: HK$2,659,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$330,083,000 (2008: HK$50,083,000 and 2007: HK$2,811,000). More details are given in Note 20.

4. OPERATING SEGMENT INFORMATION

For the year ended 31 December 2009

In the past, the Company's primary reporting format was business segment. The application of HKFRS 8 has resulted in a redesignation of the Company's reporting segments as compared with the primary reportable segments determined in accordance with HKAS 14. In prior years, primary segment information was analysed on the basis of three operating divisions:

(a) The coke segment extracts coke and produces related by-products including coal gas, coal chemical products and supply of electricity;

(b) The corporate segment comprises head office and treasury functions; and

(c) The discontinued operations comprise hotel management and property investment.

Following the disposal of the discontinued operations, management has reassessed the Company's reporting segments in the context of HKFRS 8 and concluded that there is only one reportable segment for the Company under HKFRS 8, which is "coal processing and production of industrial coke and coal-related chemicals and supply of electricity". Information regarding this segment can be obtained by reference to the consolidated financial statements as a whole.

No further geographical segment information is presented as over 90% of the Company's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in PRC. Revenue from continuing operations of approximately HK$771,148,000 (2008: HK$153,758,000) was derived from sales to a single customer.

For the years ended 2007 and 2008

Segment information is presented on the Company's primary segment reporting basis, by business segment. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Company's revenue is derived from customers based in PRC, and over 90% of the Company's assets are located in PRC.

The Company's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Company's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) The coke segment extracts coke and produces related by-products including coal gas, coal chemical products and surplus electricity;

(b) The corporate segment comprises head office and treasury functions; and

(c) The discontinued operations comprise hotel management and property investment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Company's business segments for the years ended 31 December 2007 and 2008.

	Continuing operations			Discontinued operations	
Year ended 31 December 2008	**Coke**	**Corporate**	**Total**	**Hotel management and property investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Sales to external customer	506,833	–	506,833	7,430	514,263
Intersegment sales	–	–	–	–	–
Total	506,833	–	506,833	7,430	514,263
Segment results	(459,059)	(19,831)	(478,890)	2,435	(476,455)
Interest income			8,323	–	8,323
Finance costs			(31,652)	–	(31,652)
(Loss)/profit before income tax			(502,219)	2,435	(499,784)
Income tax			(15,423)	608	(14,815)
(Loss)/profit for the year			(517,642)	3,043	(514,599)
Assets					
Segment assets	3,555,511	359,721	3,915,232	143,224	4,058,456
Liabilities					
Segment liabilities	791,386	2,233,727	3,025,113	224	3,025,337
Other segment information:					
Capital expenditure	22,732	364	23,096	34	23,130
Subsidiary acquisition expenditure	–	1,350,000	1,350,000	–	1,350,000
Depreciation of property, plant and equipment	26,397	231	26,628	751	27,379
Amortisation of prepaid land premiums	296	–	296	1,045	1,341
Loss on disposal of property, plant and equipment	1,189	–	–	1,189	1,189

Year ended 31 December 2007	Continuing operations: Coke	Continuing operations: Corporate	Total	Discontinued operations: Hotel management and property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Sales to external customer	–	3,128	3,128	7,510	10,638
Total	–	–	3,128	7,510	10,638
Segment results	–	8,442	8,842	(5,202)	(3,240)
Finance costs			(154)	–	(154)
Gain on disposal of a subsidiary			–	67	67
(Loss)/profit before income tax			8,288	(5,135)	3,153
Income tax			(413)	–	(413)
(Loss)/profit for the year			(7,875)	(5,135)	(2,740)
Assets					
Segment assets	–	191,368	191,368	142,307	333,675
Liabilities					
Segment liabilities	–	5,016	5,016	107	5,123
Other segment information:					
Capital expenditure	–	13,119	13,119	3,738	16,857
Depreciation of property, plant and equipment	–	133	133	2,831	2,964
Amortisation of prepaid land premiums	–	–	–	1,063	1,063

5. REVENUE AND OTHER INCOME

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

An analysis of revenue, other income and gains is as follows:

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Sales of goods	1,224,798	506,833	2,217
Gain on sales of marketable securities	–	–	911
	1,224,798	506,833	3,128
Other income			
Collection of a trade receivables previously written off	79,913	–	–
Rental income from leasing property, plant and equipment	20,346	3,890	–
Bank interest income	6,882	8,323	5,225
Sundry income	7,501	1,228	92
Dividend income	–	–	6
	114,642	13,441	5,323
Gains			
Increase in fair value of investment properties	1,539	–	7,489
Gain on disposal of an equity investment	–	1,980	–
Others	2,608	–	–
	4,147	1,980	7,489
	118,789	15,421	12,812

6. OTHER OPERATING EXPENSES

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Decrease in fair value of investment properties	–	4,207	–
Cost of operating lease – Group as lessor	20,164	3,040	–
Bank charges	3,934	3,103	–
Loss from disposal of assets	1,956	–	–
Other	1,255	1,065	–
Total	27,309	11,415	–

7. FINANCE COSTS

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Interest on borrowings wholly repayable within five years:			
Bank loans	26,500	10,220	154
Financial cost arisen from bills receivable discount	7,530	3,160	–
Loans from non-financial institutions	6,179	3,214	–
Convertible notes	63,561	22,433	–
	103,770	39,027	154
Less: Interest capitalised	(23,037)	(7,375)	–
	80,733	31,652	154

8. PROFIT/LOSS BEFORE TAX

The Group's profit/loss before tax is arrived at after charging/(crediting) the following:

		2009	2008	2007
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Cost of goods sold		770,856	263,367	–
Minimum lease payments under operating leases:				
Operating lease rentals – land and buildings		389	226	427
Auditors' remuneration		1,600	1,500	400
Staff costs (including directors' remuneration)				
– Wages and salaries		37,295	17,703	5,576
– Retirement benefit scheme contributions		316	127	90
Legal and professional fee		2,455	10,802	–
Depreciation	*15*	98,744	27,379	2,964
Amortisation of prepaid land premiums	*17*	1,022	1,341	1,063
(Increase)/decrease in fair value of investment properties	*16*	(1,539)	4,207	(7,489)
(Reversal)/provision for inventories		(18,176)	18,176	–
(Reversal)/provision of bad debt on trade receivables	*25*	(38,096)	5,721	–
Collection of a trade receivable previously written off	*5*	(79,913)	–	–
Convertible notes interest expense	*7*	63,561	22,433	–
Bank charge	*6*	3,934	3,103	–
Loss on disposal of items of property, plant and equipment		38	1,189	–

9. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Fees	552	533	2,675
Other emoluments:			
Salaries, allowances and benefits in kind	2,465	1,020	197
Equity settled share option expenses	9,528	–	–
Pension scheme contributions	21	15	4
	12,566	1,568	2,876

During the respective year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant and the amount included in the financial statement for the year is included in the above directors' remuneration disclosure.

(a) Independent non-executive directors

The fees paid to independent non-executive directors and equity-settled option expenses during the respective year were as follows:

	2009		2008		2007	
	Equity settled option expenses	*HK$'000*	Equity settled option expenses	*HK$'000*	Equity settled option expenses	*HK$'000*
Choy So Yuk, JP (appointed on 5 June 2009)	93	69	–	–	–	–
Li Xiao Long (appointed on 20 February 2009)	93	103	–	–	–	–
Lo Tung Sing, Tony (appointed on 3 July 2008)	93	120	–	60	–	–
Leung Chung Sing (appointed on 14 April 2008 and resigned on 20 February 2009)	–	17	–	90	–	–
Cheung Siu Chung (appointed on 30 December 2008)	93	180	–	–	–	–
Kwee Chong Kok, Michael (resigned on 30 December 2008)	–	–	–	125	–	125
Chiu Antony (resigned on 31 October 2008)	–	–	–	104	–	50
Ho Kwan Tat (resigned on 14 April 2008)	–	–	–	29	–	61
Chan Chi Shing, Paul (resigned on 30 June 2007)	–	–	–	–	–	75
Lo Wai Keung, Peter (resigned on 30 June 2007)	–	–	–	–	–	75
	372	489	–	408	–	386

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil and 2007: Nil).

(b) Executive directors

	Fees	Salaries allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009						
Executive directors:						
Cai Sui Xin	–	–	–	2,463	–	2,463
Lau Yu	–	200	50	1,859	4	2,113
Lee Sammy Sean (resigned on 5 August 2009)	63	–	–	–	–	63
Li Xiao Juan (appointed on 30 March 2009)	–	320	80	1,627	4	2,031
Lui Ngok Che (resigned on 5 August 2009)	–	55	–	–	1	56
Ng Tze For (appointed on 11 September 2008)	–	1,440	120	1,348	12	2,920
Zhao Cheng Shu (appointed on 2 April 2009)	–	200	–	1,859	–	2,059
	63	2,215	250	9,156	21	11,705
2008						
Executive directors:						
Lee Sammy Sean	125	–	–	–	–	125
Lui Ngok Che	–	660	–	–	12	672
Ng Tze For (appointed on 11 September 2008)	–	360	–	–	3	363
	125	1,020	–	–	15	1,160
2007						
Executive directors:						
Lee Sammy Sean	125	–	–	–	–	125
Chan Wai Hung	960	–	–	–	–	960
Mo Ka Yin, Kenneth	109	–	–	–	–	109
Pang Ho Chuen, Lawrence	1,095	–	–	–	–	1,095
Lui Ngok Che	–	197	–	–	4	201
	2,289	197	–	–	4	2,490

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2008: two and 2007: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining nil (2008: three and 2007: two) non-director, highest paid employees for the year are as follows:

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	–	2,056	913
Equity-settled share option expenses	–	–	–
Pension scheme contributions	–	29	18
	–	2,085	931

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

		Number of employees	
	2009	**2008**	**2007**
Nil to HK$1,000,000	–	2	2
HK$1,000,001 to HK$1,500,000	–	–	–
HK$1,500,001 to HK$2,000,000	–	1	–

During the respective year, share options were granted to non-director, highest paid employees, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant and amount included in the financial statement for the respective year is included in the above non-director, highest paid employees' remuneration disclosure.

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5% and 2007:17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in the PRC have been calculated at the rates of tax applicable to the subsidiaries operating therein, based on existing legislation, interpretations and practices in respect thereof. Loudong PRC is subject to a statutory tax rate of 25%, while it was entitled to a favourable tax rate of 12.5% under tax holiday regulation in 2008, which was the last year of tax holiday granted.

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

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Group:			
Current – Hong Kong			
Charge for the year	708	847	228
Current – PRC	121,249	15,344	–
Deferred *(Note 22)*	19,970	(768)	185
Total tax charge for the year	141,927	15,423	413

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

Group – 2009

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before tax from continuing operations	(103,206)		439,833		336,627	
Tax at the statutory tax rate	(17,029)	16.5	109,958	25.0	92,929	27.6
Deferred tax assets not recognised	6,200	(6.0)	–	–	6,200	1.8
Expenses not deductible for tax	10,829	(10.5)	30,789	7.0	41,618	12.4
Others	1,180	(1.1)	–	–	1,180	0.3
Tax charge at the Group's effective rate	1,180	(1.1)	140,747	32.0	141,927	42.1

Group – 2008

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before tax from continuing operations	(611,471)		109,252		(502,219)	
Tax at the statutory tax rate	(100,892)	16.5	27,313	25.0	(73,579)	14.7
Benefits of tax holiday	–	–	(13,657)	(12.5)	(13,657)	2.7
Reversal of deferred tax assets previously recognised	1,881	(0.3)	517	0.5	2,398	(0.5)
Deferred tax assets not recognised	6,655	(1.1)	–	–	6,655	(1.3)
Effect of higher rate of deferred tax	–	–	(900)	(0.8)	(900)	0.2
Expenses not deductible for tax	94,238	(15.4)	–	–	94,238	(18.8)
Others	(2)	–	270	0.2	268	0.1
Tax charge at the Group's effective rate	1,880	(0.3)	13,543	12.4	15,423	(2.9)

Group – 2007

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax (including profit from discontinued operations)	3,153		–		3,153	
Tax at the statutory tax rate	552	17.5	–	–	552	17.5
Tax losses not recognised	1,548	62.8	–	–	1,978	62.8
Tax effect of unused tax losses	(525)	(16.7)	–	–	(525)	(16.7)
Tax effect of unused tax losses carried forward	430	13.6	–	–	430	13.6
Effect of temporary difference	(213)	(6.8)	–	–	(213)	(6.8)
Income not subject to tax	(2,387)	(75.7)	–	–	(2,387)	(75.7)
Expenses not deductible for tax	823	26.1	–	–	823	26.1
Deferred tax related to the origination and reversal of temporary difference	185	5.9	–	–	185	5.9
Tax charge at the Group's effective rate	413	13.1	–	–	413	13.1
Represented by:						
Tax charge attributable to discontinued operations					–	
Tax credit attributable to continuing operations reported in the consolidated income statement					413	
					413	

According to an agreement reached between Loudong PRC and local tax bureau, Loudong PRC is granted a grace period to settle the outstanding corporate income tax payable brought forward from previous years with total amount of RMB78,459,000 (around HK$89,108,000) no later than the end of year 2011. Loudong PRC is also granted to settle RMB11,825,000 (around HK$13,429,000) of outstanding value-added tax payable brought forward from previous years no later than then end of year 2011. Both balances have been recorded as other long-term payables.

12. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/loss attributable to owners of the parent for the year ended 31 December 2009 includes a loss of HK$22,505,000 (2008: HK$700,211,000 and 2007: HK$3,533,000) which has been dealt with in the financial statements of the Company (note 35(b)).

13. DISCONTINUED OPERATIONS

Disposal of the hotel operation business

On 29 October 2008, City Joint Investments Limited, a wholly-owned subsidiary of the Company, entered into a sale agreement to dispose the entire interests in Rolling Development Limited and New Point Management Limited, both indirect wholly-owned subsidiaries of the Company. The disposal was completed on 22 January 2009 for a consideration of HK$80 million.

Disposal of the property investment business

On 29 October 2008, the Company entered into a sale agreement to dispose the entire interest in New Fortune Development Limited, a wholly-owned subsidiary of the Company. The disposal was completed on 12 January 2009 for a consideration of HK$63 million.

The results of the discontinued operations included in the consolidated income statement are as follows:

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Revenue and other income	6,454	7,452	8,162
Expenses	(510)	(5,017)	(13,364)
Profit/(loss) from operations before income tax expense	5,944	2,435	(5,202)
Income tax (benefit)/expense	(1,148)	608	67
Profit/(loss) for the year from discontinued operations	4,796	3,043	(5,135)

The major classes of assets and liabilities of the disposed operations classified as held for sale as at 31 December are as follows:

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment	–	12,243	–
Prepaid land premiums	–	63,481	–
Land held for development	–	63,196	–
Goodwill	–	2,811	–
Deferred tax assets	–	941	–
Trade and bills receivables	–	654	–
Prepayments, deposits and other receivables	–	1,217	–
Cash and cash equivalents	–	351	–
	–	144,894	–
Less: Impairment of the assets classified as held for sale	–	(1,670)	–
Assets classified as held for sale	–	143,224	–
Liabilities			
Other payables and accruals	–	(224)	–
Liabilities directly associated with the assets classified as held for sale	–	(224)	–
Net assets directly associated with the disposal group	–	(143,000)	–

The net cash flows of the discontinued operation included in the consolidated cash flow statement are as follows:

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Operating activities	–	(2,194)	1,652
Net cash outflow	–	(2,194)	1,652
Earnings per share:			
Basic, from the discontinued operations	HK$0.00	HK$0.01	(HK$0.02)

The calculations of basic and diluted earnings per share from the discontinued operations are based on:

	2009	2008	2007
Profit attributable to ordinary equity holders of the parent from the discontinued operations	HK$4,796,000	HK$3,043,000	(HK$5,135,000)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	697,593,000	417,508,000	266,374,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	701,649,000	548,656,000	N/A

As at the balance sheet date, the financial liabilities of the discontinued operations were all on demand.

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 697,593,000 (2008: 417,508,000 and 2007: 266,374,000) in issue during the year, as adjusted to reflect the placement and subscription of new shares and conversion of convertible notes to new shares during the year.

The calculation of diluted earnings/(loss) per share is based on the earning for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Earnings/(loss)			
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation:			
From continuing operations	45,618	(566,476)	7,785
From discontinued operations	4,796	3,043	(5,135)
	50,414	(563,433)	2,740
Interest on convertible notes	63,561	22,433	–
Profit attributable to ordinary equity holders of the parent before interest on convertible notes	113,975	(541,000)	2,740

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Attributable to:			
From continuing operations	109,179	(544,043)	7,875
From discontinued operations	4,796	3,043	(5,135)
	113,975	(541,000)	2,740

		Number of shares	
	2009	2008	2007
	'000	*'000*	*'000*
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	697,593	417,508	266,374
Effect of dilution – weighted average number of ordinary shares			
Share options	4,056	–	–
Convertible notes	424,102	131,148	–
	1,125,751	548,656	266,374

Because the diluted earnings/(loss) per share amount is increased when taking convertible notes into account, the convertible notes have an anti-dilutive effect on the basic earnings/(loss) per share for the years and were ignored in the calculation of diluted earnings/(loss) per share. Therefore, diluted earnings/(loss) per share amounts are based on the profit attributable to owners of the parent of HK$50,414,000 (2008: loss of HK$563,433,000 and 2007: HK$2,740,000), and the weighted average number of ordinary shares of 701,649,000 (2008: 417,508,000 and 2007: 266,374,000) in issue during the year.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant facilities	Office equipment	Machinery	Vehicles	Plant infrastructure	Leasehold improvement, furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009									
Cost:									
At 1 January 2009	1,145	803,025	32,114	979,447	18,214	283,929	863	400,300	2,519,037
Additions	1,924	–	200	16,226	3,395	–	215	10,796	32,756
Transferred from CIP	–	–	–	199,406	–	–	–	(199,406)	–
Disposals	–	–	–	(187,131)	(88)	–	–	–	(187,219)
Capitalised interest	–	–	–	–	–	–	–	23,037	23,037
Exchange realignment	47	1,399	54	493	43	519	–	501	3,056
At 31 December 2009	3,116	804,424	32,368	1,008,441	21,564	284,448	1,078	235,228	2,390,667
Accumulated depreciation:									
At 1 January 2009	610	8,009	1,038	9,634	634	4,707	223	–	24,855
Charge for the year	62	26,512	3,146	54,548	1,972	12,327	177	–	98,744
Disposals	–	–	–	–	(40)	–	–	–	(40)
Exchange realignment	5	163	9	480	26	187	–	–	870
At 31 December 2009	677	34,684	4,193	64,662	2,592	17,221	400	–	124,429
Net book value:									
At 31 December 2009	2,439	769,740	28,175	943,779	18,972	267,227	678	235,228	2,266,238
At 31 December 2008	535	795,016	31,076	969,813	17,580	279,222	640	400,300	2,494,182

Group

	Buildings	Plant facilities	Office equipment	Machinery	Vehicles	Plant infrastructure	Leasehold improvement, furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2008									
Cost:									
At 1 January 2008	12,240	–	–	–	–	–	5,170	–	17,410
Additions	161	4,072	36	9,232	744	15	65	8,506	22,831
Acquisition of a subsidiary *(note 36)*	1,209	805,599	32,342	790,527	17,655	286,390	–	584,879	2,518,601
Assets included in discontinued operations	(10,100)	–	–	–	–	–	(3,772)	–	(13,872)
Disposals	(2,140)	–	–	(2,454)	–	–	(600)	–	(5,194)
Transferred from CIP	–	–	–	188,813	–	–	–	(188,813)	–
Exchange realignment	(225)	(6,646)	(264)	(6,671)	(185)	(2,476)	–	(4,272)	(20,739)
At 31 December 2008	1,145	803,025	32,114	979,447	18,214	283,929	863	400,300	2,519,037
Accumulated depreciation:									
At 1 January 2008	3,073	–	–	–	–	–	501	–	3,574
Charge for the year	623	8,649	1,064	10,473	747	4,863	960	–	27,379
Assets included in discontinued operations	(471)	–	–	–	–	–	(1,158)	–	(1,629)
Disposals	(65)	–	–	(827)	–	–	(80)	–	(972)
Exchange realignment	(2,550)	(640)	(26)	(12)	(113)	(156)	–	–	(3,497)
At 31 December 2008	610	8,009	1,038	9,634	634	4,707	223	–	24,855
Net book value:									
At 31 December 2008	535	795,016	31,076	969,813	17,580	279,222	640	400,300	2,494,182
At 31 December 2007	9,167	–	–	–	–	–	4,669	–	13,836

Group
31 December 2007

	Buildings	Lease improvement, furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 31 December 2006 and at 1 January 2007	–	19	19
Additions	12,240	5,151	17,291
At 31 December 2007	12,240	5,170	17,410
Accumulated depreciation:			
At 31 December 2006 and at 1 January 2007	606	4	610
Charge for the year	2,467	497	2,964
At 31 December 2007	3,073	501	3,574
Net book value:			
At 31 December 2007	9,167	4,669	13,836
At 31 December 2006	–	15	15

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

16. INVESTMENT PROPERTIES

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at 1 January	9,660	13,568	–
Additions	–	299	6,079
Net profit/(loss) from a fair value adjustment	1,539	(4,207)	7,489
Carrying amount at 31 December	11,199	9,660	13,568

The Group's investment properties located in Beijing were revalued on 31 December 2008 and 2009 by Vigers Appraisal & Consulting Limited, independent professional qualified valuers, at HK$9,660,000 and HK$11,199,000 respectively; and were revalued on 31 December 2007 by DTZ, independent professional qualified valuers, at HK$13,568,000.

These properties were pledged to secure general banking facilities granted to the Group (note 31).

17. PREPAID LAND PREMIUMS

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January	38,021	70,387	66,900
Additions in this year	13,907	–	3,487
Acquisition of a subsidiary *(note 36)*	–	38,361	–
Reclassified as disposal group held for sale	–	(66,900)	–
Currency realignment	71	(341)	–
Disposals	–	(3,486)	–
At 31 December	51,999	38,021	70,387
Accumulated amortisation:			
At 1 January	249	1,329	266
Charge for the year	1,022	1,341	1,063
Reclassified as disposal group held for sale	–	(2,374)	–
Currency realignment	12	(47)	–
At 31 December	1,283	249	1,329
Net book value:			
At 31 December	50,716	37,772	69,058

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

18. INTERESTS IN AN ASSOCIATE

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets	1,108	1,099	–
Goodwill on acquisition	4,684	4,684	–
Unlisted shares, at cost	5,792	5,783	–

Particulars of the principal associate are as follows:

Name	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Nan Tie Lou Jun Coke Transportation Co., Ltd. ("Nan Tie") *	Shanxi Province, the PRC	19%	Provision of loading, storage and transportation service for coke, washed coals and raw coals

* *Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network*

The Group's trade payable balance with the associate is disclosed in note 43 to the financial statements.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Assets	21,028	13,856	–
Liabilities	15,196	8,073	–
Revenue	10,546	3,592	–
Profit	49	–	–

19. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Unlisted equity investments, at cost	5,679	5,443	–

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

As at 31 December 2009, certain unlisted equity investments with a carrying amount of HK$5,679,000 (2008: HK$5,443,000 and 2007: Nil) were stated at cost because the range of reasonable fair value estimates cannot be measured reliably. The Group does not intend to dispose them in the near future.

20. GOODWILL

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Opening balance	50,083	2,811	2,811
Acquisition of a subsidiary *(note 36)*	280,000	621,222	–
Assets included in disposal group held for sale	–	(2,811)	–
Impairment during the year	–	(571,139)	–
Closing balance	330,083	50,083	2,811
As at 31 December			
Cost	901,222	621,222	2,811
Accumulated impairment	(571,139)	(571,139)	–
	330,083	50,083	2,811

Impairment testing of goodwill

Goodwill acquired through the business combination has been allocated to the coke cash generating unit. For the purpose of impairment testing, the recoverable amounts of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five year period with a growth rate beyond the time horizon, which is approved by senior management. At 31 December 2009, the discount rate applied to cash flow projections is 15% (2008: 13% and 2007: N/A). Key assumptions used in the value in use calculation for 31 December 2009 are as follows:

Revenues

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

Commodity prices

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

Discount rates

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

Growth rates

Cash flows beyond the five year forecast period are assumed to grow at a constant 2.0% (2008: 2.0% and 2007: N/A) per annum, based on expected long term inflation rates in the PRC.

21. OTHER LONG-TERM ASSETS

During the year ended 31 December 2009, Loudong PRC, a subsidiary of the Company, placed deposits amounting to HK$200,000,000 to acquire 49% equity interest in Shanxi Linxian Taiye Coal Mining Company Limited ("Taiye"), a coal mining company. As at the date of approval of these financial statements, the acquisition has not been completed.

22. DEFERRED TAX

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

Deferred tax assets

Group

31 December 2009

	Bad debt provision	Inventory provision	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	16,338	4,527	20,865
Deferred tax charged to the statement of comprehensive income *(note 11)*	(9,542)	(4,531)	(14,073)
Exchange alignment	18	4	22
At 31 December 2009	6,814	–	6,814

Deferred tax liabilities

	Capitalised interest	Book value in excess of tax base of prepaid land premiums	Others	Book value in excess of tax base of property, plant and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	10,484	2,030	369	14,815	27,698
Deferred tax charged/(credited) to the statement of comprehensive income *(note 11)*	5,595	(699)	147	854	5,897
Exchange alignment	22	948	–	(39)	931
At 31 December 2009	16,101	2,279	516	15,630	34,526

Deferred tax assets

Group

31 December 2008

	Bad debt provision HK$'000	Inventory provision HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2008	–	–	893	893
Acquisition of a subsidiary	14,952	–	–	14,952
Deferred tax credited/(charged) to the statement of comprehensive income *(note 11)*	1,503	4,544	(616)	5,431
Reclassified to discontinued operations	–	–	(277)	(277)
Exchange alignment	(117)	(17)	–	(134)
At 31 December 2008	16,338	4,527	–	20,865

Deferred tax liabilities

	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land premiums HK$'000	Others HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Total HK$'000
At 1 January 2008	–	–	–	(712)	(712)
Acquisition of a subsidiary	8,713	1,963	–	12,257	22,933
Deferred tax charged to the statement of comprehensive income *(note 11)*	1,844	82	369	2,368	4,663
Reclassification to discontinued operations	–	–	–	664	664
Exchange alignment	(73)	(15)	–	238	150
At 31 December 2008	10,484	2,030	369	14,815	27,698

Deferred tax assets

Group

31 December 2007

	Depreciation allowance in excess of the related depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2007	–	–	–
Acquisition of a subsidiary	372	1,418	1,790
Deferred tax charged/(credited) to the income statement *(Note 11)*	340	(525)	(185)
At 31 December 2007	712	893	1,605

The Group has accumulative tax losses arising in Hong Kong of HK$77,979,000 (2008: HK$40,332,000 and 2007: HK$5,103,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2008 and 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of withholding taxes associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$11,617,000 at 31 December 2009 (2008: HK$4,133,000 and 2007: Nil).

23. INVESTMENTS IN SUBSIDIARIES

		Company	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	–*	78	78

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

Amounts due from subsidiaries:

	Company		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Current	488,090	212,007	157,939
Non-current	1,350,005	1,350,000	–
Less: Impairment provision for investment in a subsidiary *(note 20)*	(571,139)	(571,139)	–
	1,266,956	990,868	157,939

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The classification has been determined based on the amount expected to be settled within one year from the balance sheet date.

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration operations**	**Issued and fully paid share capital**	**Percentage of equity interest held**	**Principal activities**
			%	
Kingfund Corporation Limited	Hong Kong	HK$1	100	Property investment
Abterra Coal & Coke Limited	Hong Kong	HK$10,000	100	Investment holding
City Joint Investments Limited	British Virgin Islands	US$1	100	Investment holding
Buddies Power Enterprises Limited	British Virgin Islands	US$1	100	Investment holding
Fortune Smart Investment Limited	Hong Kong	HK$1	100	Property management
Loudong PRC	PRC/Mainland China	RMB246,000,000	50.1	Coke extracting and the manufacture of relevant chemicals
Super Energy Limited	Hong Kong	HK$1	100	Administrative function

24. INVENTORIES

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials at cost	99,397	52,075	–
Work in progress at cost (2008: at net realisable value)	16,032	45,303	–
Finished goods at cost (2008: at net realisable value)	357,703	157,818	–
Spare parts and consumables at cost	717	1,108	–
Total inventories at the lower of cost and net realisable value	473,849	256,304	–

25. TRADE AND BILLS RECEIVABLES

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	138,091	260,472	2,659
Bills receivables	74,071	26,408	–
Impairment provision	(27,254)	(65,350)	–
	184,908	221,530	2,659

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

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

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	98,092	221,626	2,659
1 to 2 years	30,996	28,865	–
Over 2 years	9,003	9,981	
	138,091	260,472	2,659

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

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	65,350	–	–
Addition as a result of acquisition of a subsidiary	–	59,807	–
Impairment losses (reversed)/recognised *(note 8)*	(38,096)	5,721	–
Less: Impairment losses recognised in discontinued operations	–	(178)	–
At 31 December	27,254	65,350	–

The above provision for impairment of trade receivables is in relation to individually impaired trade receivables with a carrying amount of HK$33,168,000 (2008: HK$65,350,000 and 2007: Nil). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	94,288	174,628	2,659
1 to 2 years	1,652	19,902	–
Over 2 years	8,983	592	–
	104,923	195,122	2,659

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

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

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Advances to suppliers	531,514	309,476	–
Other receivables	63,860	183,707	5,986
	595,374	493,183	5,986

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there is no recent history to default.

27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Listed equity investments, at market value:			
PRC	568	7,074	–

The above equity investments at 31 December 2007, 2008 and 2009 were classified as held for trading.

28. CASH AND CASH EQUIVALENTS

	Group			Company		
	2009	2008	2007	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	193,976	308,325	163,211	4,417	5	161,133
Less: time deposits pledged as security	(134,908)	(294,579)	–	–	–	–
Cash and cash equivalents	59,068	13,746	163,211	4,417	5	161,133

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$177,557,000 (2008: HK$303,643,000 and 2007: Nil). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

29. TRADE AND BILLS PAYABLE

An aging analysis of the trade and bills payable as at the balance sheet date, based on the invoice date, is as follows:

	Group		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	222,076	477,703	–
1 to 2 years	22,743	6,392	–
Over 2 years	–	10,787	–
	244,819	494,882	–

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

30. OTHER PAYABLES AND ACCRUALS

	Group		
	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Customer advances	29,112	56,241	–
Value-added tax payable	60,958	148,969	–
Other payables	109,931	76,378	1,133
Accruals	12,182	14,820	–
	212,183	296,408	1,133

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2009			2008			2007		
	Effective interest rate (%)	Maturity	*HK$'000*	Effective interest rate (%)	Maturity	*HK$'000*	Effective interest rate (%)	Maturity	*HK$'000*
Current									
Bank loans – unsecured	4.860% – 7.434%	2010	210,558	5.913% – 10.571%	2009	295,825	N/A	N/A	
Loan from local credit corporation – unsecured	10.178%	2010	9,086	14.904% – 17.181%	2009	10,222	N/A	N/A	
Current portion of a long term bank loan – secured	3.00% – 3.25%	2010	2,451	3.25% – 5%	2009	111	5%-7%	2009	85
			222,095			306,158			85
Non-**current**									
Secured bank loan	3.00% – 3.25%	2011 – 2031	9,532	3.25% – 5%	2010 – 2031	3,550	5%-7%	2010–2031	3,676
Total bank and other borrowings			231,627			309,708			3,761

Notes:

(a) Certain of the Group's bank loans are secured by mortgages over the Group's investment properties and building and prepaid land premium situated in Beijing and Hong Kong respectively, which had an aggregate carrying value at the balance sheet date of approximately HK$11,199,000 and HK$15,688,000 respectively (2008: HK$9,660,000 and nil, respectively and 2007: HK$13,568,000 and nil, respectively).

(b) Except for the secured bank loans which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

The carrying amounts of the Group's borrowings approximate to their fair value.

Loans from non-financial institutions are unsecured and bear interest at an annual rate at 28%.

The non-current loans from non-financial institutions represent funds received from various parties for working capital purposes, and are not repayable within the next 12 months. There is no fixed term of repayment.

32. CONVERTIBLE NOTES

On 31 August 2008, the Company issued convertible notes with a nominal value of HK$1,000,000,000 as a partial consideration of the business combination set out in Note 36. The notes carry interest rate of 2% per annum, payable annually and are convertible at the option of the noteholders into ordinary shares on the basis of one ordinary share for every HK$2.50 note held at any time from the date of issue up to seven business days preceding the maturity date. As a result of the open offer and subscription of new shares during this year, the exercise price has been adjusted to HK$2.168 per share at 31 December 2009. The notes holders may demand the Company to redeem the convertible notes if the trading of the shares has been suspended consecutively for more than 45 trading days. Any convertible notes not converted will be redeemed on 30 August 2011 at the principal amount outstanding together with all accrued and unpaid interest.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible notes issued have been split as to the liability and equity components, as follows:

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Nominal value of convertible notes outstanding at the end of year	700,000	1,000,000	–
Equity component	(107,436)	(153,480)	–
Liability component	592,564	846,520	–
Accumulative interest expense amortised	85,994	22,433	–
Less: Interest settled	(25,057)	–	–
Interest converted	(15,384)	–	–
Liability component at 31 December	638,117	868,953	–

33. SHARE CAPITAL

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
200,000,000,000 (2008 and 2007: 200,000,000,000) ordinary shares of HK$0.01 each	2,000,000	2,000,000	2,000,000
Issued and fully paid:			
991,237,903 (2008: 533,115,372 and 2007: 361,115,372) ordinary shares of HK$0.01 each	9,912	5,331	3,611

During the year ended 31 December 2009 the movements in the issued share capital of the Company were as follows:

(a) Open offer

On 16 June 2009, the Company announced a proposed open offer to raise not less than HK$140,742,000 before expenses by issuing 213,246,148 offer shares at the subscription price of HK$0.66 per offer share on the basis of two offer shares for every five shares held on 29 June 2009 (the "Offer"). All the conditions of the Offer were fulfilled on 21 July 2009. After the completion of the Offer, the number of the total issued ordinary shares of the Company increased from 533,115,372 to 746,361,520. Details of the Offer had been disclosed in the Company's announcements dated 16 June 2009 and 23 July 2009 respectively and the prospectus in respect of the Offer dated 2 July 2009.

(b) Placing of existing shares and top up subscription of new shares

On 27 August 2009, General Nice Resources (Hong Kong) Limited ("GNR"), a substantial shareholder of the Company, as the subscriber and the Company entered into an agreement with China Merchants Securities (HK) Co., Ltd. ("CM Securities") pursuant to which CM Securities agreed to place the placing shares comprising 106,500,000 existing ordinary issued shares of the Company at the placing price of HK$1.28 per placing share to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules) and not connected persons of the Company; and GNR agreed to subscribe up to 106,500,000 new ordinary shares of the Company at the same placing price.

Following the completion of the aforesaid placing and subscription on 2 September 2009 and 9 September 2009 respectively, the number of the total issued ordinary shares of the Company increased from 746,361,520 to 852,861,520. Details of the aforesaid transactions had been disclosed in the Company's announcements dated 28 August 2009 and 9 September 2009 respectively.

(c) Conversion of convertible note

On 25 September 2009, the Company received from GNR a notice for the conversion of the convertible note in the amount of HK$300,000,000. As a result, the Company allotted and issued a total of 138,376,383 conversion shares to GNR at the conversion price of HK$2.168 per conversion share on the same date. Following the issue of the conversion shares, the number of the total issued ordinary shares of the Company increased from 852,861,520 to 991,237,903. Details of the aforesaid matter had been disclosed in the Company's announcement dated 30 September 2009.

During the year ended 31 December 2008, the movements in the issued share capital of the Company were as follows:

(i) As a part of the total consideration of the business combination as set out in Note 36, the Company issued 100,000,000 shares on 3 September 2008, and the value is determined based on the closing price thereof.

(ii) A placement agreement dated 12 August 2008 was signed between the Company and Grand Vico Capital Limited to place 72,000,000 new shares of the Company at a placing price of HK$2.10 per share. The placement was completed on 3 September 2008.

The convertible note in the principal amount of HK$1,000,000,000 convertible into 400,000,000 shares of HK$0.01 each in the capital of the Company with an initial conversion price of HK$2.50 per conversion share with 2% interest per annum was issued to GNR on 2 September 2008. The convertible notes is transferable and the conversion price is adjustable in accordance with the terms and conditions of the relevant instrument. The conversion price was subsequently adjusted from HK$2.5 to HK$2.204 on 30 June 2009 as a result of the Offer and was further adjusted to HK$2.168 on 27 August 2009 and HK$2.146 on 15 January 2010 as a result of two subscriptions of new shares of the Company.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	533,115,372	5,331	686,648	691,979
Shares issued	458,122,531	4,581	581,110	585,691
At 31 December 2009	991,237,903	9,912	1,267,758	1,277,670

34. SHARE OPTION SCHEME

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

a. The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the number of shares of the Company in issue as at the Adoption Date. The maximum number of shares to be issued under the share options granted to each Participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

The following options were granted and outstanding under the Scheme during the year:

Name or category of participants	Number of share options granted during the year and at 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ (per share)
Director				
Cai Sui Xin	5,300,000	9 July 2009	09/01/2010 to 24/06/2017	0.886
Zhao Cheng Shu	4,000,000	9 July 2009	09/01/2010 to 24/06/2017	0.886
Lau Yu	4,000,000	9 July 2009	09/01/2010 to 24/06/2017	0.886
Ng Tze For	2,900,000	9 July 2009	09/01/2010 to 24/06/2017	0.886
Li Xiao Juan	3,500,000	9 July 2009	09/01/2010 to 24/06/2017	0.886
Lo Tung Sing, Tony	200,000	9 July 2009	09/07/2010 to 24/06/2017	0.886
Cheung Siu Chung	200,000	9 July 2009	09/07/2010 to 24/06/2017	0.886
Li Xiao Long	200,000	9 July 2009	09/07/2010 to 24/06/2017	0.886
Choy So Yuk	200,000	9 July 2009	09/07/2010 to 24/06/2017	0.886
	20,500,000			
Other employees (in aggregate)	1,200,000	9 July 2009	09/01/2010 to 24/06/2017	0.886
Total	21,700,000			

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

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

The closing price of the Company's share immediately before the date of grant was HK$0.83. The fair value of the share options granted during the year was HK$10,085,000 (2008: Nil and 2007: Nil), of which a share option expense of HK$10,085,000 (2008: Nil and 2007: Nil) is recognised in the consolidated statement of comprehensive income, during the year.

The fair value of equity-settled share options granted during the year ended 31 December 2009 was estimated as at the date of grant, using a The Hull White Trinomial Model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the formula used for the year ended 31 December 2009:

Dividend yield:	–
Expected volatility:	77.082%
Risk-free interest rate:	2.246%
Post-forfeiture rate:	0%
Exercise price multiple:	1.99-2.8

The exercise price multiple of share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

During the year, no share options were exercised, cancelled or lapsed in accordance with the terms of the Scheme. At 31 December 2009, the total number of 21,700,000 share options outstanding under the Scheme represented approximately 2.19% of the Company's shares in issue at that date.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 55 the financial statements.

(b) Company

	Share premium account HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	198,655	160,670	(180,730)	178,595
Issue of ordinary shares through rights issue	110,918	–	–	110,918
Issue of ordinary shares through placement	29,750	–	–	29,750
Share issue expenses	(955)	–	–	(955)
Profit for the year	–	–	(3,533)	(3,533)
At 31 December 2007 and at 1 January 2008	338,368	160,670	(184,263)	314,775
Issue of ordinary shares through placement	149,280	–	–	149,280
Issue of ordinary shares as part of the consideration of the business combination as set out in note 36	199,000	–	–	199,000
Total comprehensive income	–	–	(700,211)	(700,211)
At 31 December 2008 and at 1 January 2009	686,648	160,670	(884,474)	(37,156)
Issue of ordinary shares through rights issue	136,704	–	–	136,704
Issue of ordinary shares through placement	130,442	–	–	130,442
Conversion of convertible notes	313,964	–	–	313,964
Equity-settled share option arrangement	–	10,085	–	10,085
Total comprehensive income	–	–	(22,505)	(22,505)
At 31 December 2009	1,267,758	170,755	(906,979)	531,534

(c) Loss attributable to equity holders of the parent

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2009 includes a loss of HK$22,505,000 (2008: HK$700,211,000 and 2007: HK$3,533,000) which has been dealt with in the financial statements of the Company.

36. BUSINESS COMBINATION

On 3 September 2008, Buddies Power Enterprises Limited, a subsidiary of the Company acquired a 100% interest in Abterra Coal and Coke Limited, which holds a 50.1% equity interest in Shanxi Loudong General Nice Coking and Gas Co. Ltd., a company incorporated in Mainland China. The total consideration was HK$1,350 million plus a contingent consideration of HK$280 million in the event that the aggregate audited net profits attributable to the 50.1% equity interest of Shanxi Loudong General Nice Coking and Gas Co. Ltd ("Loudong PRC") for the financial years ending 31 December 2008 and 2009 exceed HK$230 million. As at the date of acquisition, the contingent consideration was neither likely nor reliably measurable and no liability was recorded in respect of any additional consideration as at 31 December 2009. In 2009, as the operating results of Loudong PRC for the financial years ended 31 December 2008 and 2009 exceeded the target, additional consideration of HK$280 million was recorded under goodwill (note 20).

The fair values of the identifiable assets and liabilities of Abterra Coal and Coke Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	*15*	2,518,601	2,330,731
Prepaid land premiums	*17*	38,361	38,361
Available-for-sale investments		6,741	6,741
Deferred tax assets	*22*	14,952	49,681
Inventories		159,359	159,359
Trade and bills receivables		223,220	223,220
Prepayments and other receivables		923,843	923,843
Equity investments at fair value through profit and loss		7,234	7,234
Amounts due from related companies		144,199	144,199
Amount due from a shareholder		22,886	22,886
Cash and bank balances		35,141	35,141
Trade and bills payable		(493,954)	(493,954)
Other payables and accruals		(535,446)	(535,446)
Interest-bearing bank and other borrowings		(328,230)	(328,230)
Amounts due to related companies		(34,829)	(34,829)
Tax payable		(230,723)	(230,723)
Loans from related companies		(969,188)	(969,188)
Loans from non-financial institutions		(24,586)	(24,586)
Deferred tax liabilities	*22*	(22,933)	(10,675)
Minority interests		(725,870)	(655,671)
		728,778	658,094
Goodwill on acquisition	*20*	901,222	
Satisfied by cash		150,000	
Satisfied by convertible notes		1,000,000	
Satisfied by shares issued *(note)*		200,000	
Satisfied by payable to a shareholder		280,000	
Total consideration		1,630,000	

Note: At 3 September 2008, the date of issuance of the consideration shares, the closing price of the Company's shares was HK$2.00.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	150,000
Cash and bank balances acquired	(35,141)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	114,859

During the year ended 31 December 2008, from the date of its acquisition, Abterra Coal and Coke Limited contributed HK$506,833,000 to the Group's revenue and HK$97,866,000 to the consolidated profit.

Had the combination taken place at the beginning of 2008, the revenue from the continuing operations of the Group and the loss of the Group for the year would have been HK$2,362,136,000 and HK$165,814,000, respectively.

37. DISPOSAL OF SUBSIDIARIES

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Net assets disposed of:			
Trade receivables	877	–	275
Prepayments and other receivables	60	–	865
Accruals and other payables	(477)	–	(1,207)
	460	–	(67)
Gain on disposal of subsidiaries	–	–	67
	460	–	–
Satisfied by:			
Amounts due from Mr. Lee Sammy Sean	460	–	–

An analysis of the net flow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration	–	–	–
Cash and bank balances disposed of	–	–	(865)
Net flow of cash and cash equivalents In respect of the disposal of subsidiaries	–	–	(865)

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year ended 31 December 2009, the Group entered into a property, plant and equipment disposal agreements in respect of certain machinery with a total consideration of HK$187,131,000, which was satisfied by (i) transfer of payable totalling HK$96,989,000; and (ii) future in-kind supplies of coal with a fair value of HK$90,142,000.

(b) On 25 September 2009, the Company received from GNR a notice for the conversion of the convertible notes in the amount of HK$300,000,000. As a result, the Company allotted and issued a total of 138,376,383 conversion shares to GNR at the conversion price of HK$2.168 per conversion share on the same date. As at the date of conversion, the carrying value of the liability component of the converted convertible notes is HK$269,304,000.

(c) As indicated in note 36, during the year, as the operating results of Loudong PRC for the financial years ending 31 December 2008 and 2009 exceeded the target, additional consideration of HK$280 million was recorded under goodwill (note 20) and payable to a shareholder (note 43).

39. CONTINGENT LIABILITY

As at 31 December 2009, a subsidiary of the Company has discounted bills receivable amounting to HK$56,701,000 (2008: HK$53,748,200) which have not reached maturity.

The Group had no other contingent liabilities as at 31 December 2009 (2008: note 36).

The Group had no contingent liabilities as at 31 December 2007.

40. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in Note 31, to the financial statements.

41. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (Note 16) under operating lease arrangements, with leases negotiated for terms ranging from two to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

In addition, the Group leases certain property, plant and machinery to mining companies, which supply coal to Loudong PRC.

At 31 December 2007, 2008, 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	20,164	21,380	218
In the 2nd to 5th years, inclusive	80,656	85,518	58
After 5 years	125,320	297,509	–
	226,140	404,407	276

The Group leases certain of its office properties and premise under operating lease arrangement. Leases for properties and premise are negotiated for terms ranging from one to two years.

At 31 December 2007, 2008, 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	336	120	–
1 to 2 years	224	97	–
	560	217	–

42. COMMITMENTS

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Authorised, but not contracted for:			
In respect of:			
– Office premise	–	12,750	–
– Acquisition of 39.9% equity interest in Loudong PRC *(i)*	600,000	–	–
– Unlisted equity investments in subsidiaries	–	–	1,400,000
	600,000	12,750	1,400,000

(i) On 9 November 2009, the Group has entered into negotiations to acquire a further 39.9% equity interest in Loudong PRC at consideration of HK$600 million satisfied by cash of HK$350 million and convertible notes of HK$250 million. The acquisition has not been completed as the date of approval of these financial statements.

As disclosed in note 21, the Group has entered into negotiations to acquire a 49% equity interest in Taiye. The final acquisition price has not yet been agreed as at the date of approval of these financial statements.

43. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

			Group	
		2009	**2008**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Sales of goods to related parties	*(i)*	–	59,375	–
Loan from a related parties	*(ii)*	–	173,284	–
Transportation fees paid to an associate	*(iii)*	13,651	6,847	–

Notes:

(i) The sales to General Nice (Tianjin) Industry Co., Ltd ("GNT"), an associate of GNR and also a related party of the Group, were made according to the published prices and conditions similar to those offered to the major customers of the Group. Details of the agreements regarding this transaction are listed in (b)(ii) below.

(ii) The loan borrowed from General Nice Development Limited ("GND"), a related party of the Group, was unsecured, interest-free and is repayable after 1 September 2010.

(iii) The transportation fees paid were according to the published prices and conditions offered by the related company to their major customers.

(iv) Administration and finance services are provided to the Group by GNR free of charge.

(b) Agreements with related parties

(i) On 31 January 2007, Loudong PRC, a subsidiary of the Group, reached an agreement with GNR, a shareholder of the Company, that Loudong PRC would provide tolling service for GNR by converting coal provided by GNR into coke. The contract was valid between 1 March 2007 and 28 February 2009. During the period, Loudong PRC was obliged to toll no less than 162,000 and 180,000 metric tons of coke to GNR for the first and second contractual years respectively, if GNR so requires. The tolling service prices were set at USD8 per metric ton. The agreement has expired and has not been exercised in 2009 (2008: nil).

(ii) According to an agreement between Loudong PRC and GNT on 18 July 2007 and a side agreement between the two parties on 7 May 2008, Loudong PRC would supply Chinese low ash metallurgical coke to GNR through GNT based on quoted prices in the open market. The contracts are valid between 31 July 2007 and 31 July 2009. During the contract period, Loudong PRC was obliged to provide to GNT the coke with total sales value of at least US$62,500,004. The agreement expired and was not been exercised in 2009 (2008: during the post-acquisition period ended 31 December 2008, the Group sold coke of approximately HK$59,375,000 to GNT).

(c) Contingent consideration payables

As explained in note 36, as at 31 December 2009, a payable to a shareholder of HK$280 million was recognised in settlement of the contingent consideration due on the acquisition of Loudong PRC. This payable is due on demand, does not bear interest and is unsecured.

(d) Outstanding balances with related parties

The balances with a shareholder and related parties are unsecured, interest-free and have no fixed terms of repayment except for the non-current balances which the related parties have agreed not to ask for repayment before 1 September 2011. These balances represented cash advances to or from those related parties and were non-trade in nature. The carrying amounts of these balances approximated to their fair values as at the balance sheet date.

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

Outstanding balances with related parties:

(i) Current portion

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Due from related companies			
GNT	29,564	–	–
Shanxi Minerals Industrial & Trading Co., Ltd.	4,739	4,732	–
Shanxi Nan Tie Lou Jun Coke Transportation Co., Ltd. ("Nan Tie")	370	296	–
	34,673	5,028	–
Due to a related company			
GND	583	–	–
Nan Tie	6,009	8,443	–
	6,592	8,443	–

(ii) Non-current portion

		Group	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Loan from related companies			
GND	271,994	193,749	–
GNT	108,668	301,891	–
Da Jin International (Group) Corporation	–	235,249	–
Xiaoyi Loudong Industry & Trading Group Co., Ltd.	144,178	17,009	–
	524,840	747,898	–

(e) Outstanding balances with related parties:

(i) Current portion

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Due to a shareholder			
GNR	291,223	987	–

Of the balance at 31 December 2009, HK$280,000,000 arises from the contingent consideration as indicated in note 36.

(ii) Non-current portion

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Loan from a shareholder			
GNR	–	830	–

(f) Outstanding balances with a director

(i) Current portion

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Due to a director			
Li Xiao Juan	12	–	–

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

	Group		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Short term employee benefits	3,199	3,759	3,785
Post-employment benefits	40	44	22
Total compensation paid to key management personnel	3,239	3,803	3,807

Further details of key management emoluments are included in note 9 to the financial statements.

The related party transactions are set out in (b) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

44. FINANCIAL INSTRUMENTS BY CATEGORY

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

2009

Financial assets

	Group			
	Financial assets at fair value through profit or loss-held for trading	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	–	–	5,679	5,679
Trade receivables	–	184,908	–	184,908
Financial assets included in prepayments, deposits and other receivables	–	63,860	–	63,860
Amounts due from related companies	–	34,673	–	34,673
Equity investments at fair value through profit or loss	568	–	–	568
Pledged deposits	–	134,908	–	134,908
Cash and cash equivalents	–	59,068	–	59,068
	568	477,417	5,679	483,664

2009

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Interest-bearing bank and other borrowings	222,095
Amounts due to related companies	6,592
Amount due to a shareholder	291,223
Amount due to a director	12
Long-term bank loans	9,532
Loans from related companies	524,840
Loans from non-financial institutions	13,606
Trade and bills payables	244,819
Financial liabilities included in other payables and accruals *(Note 30)*	184,318
Convertible notes	638,117
Tax payable	363,648
	2,498,802

2008
Financial assets

	Group			
	Financial assets at fair value through profit or loss-held for trading	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	–	–	5,443	5,443
Trade receivables	–	221,530	–	221,530
Financial assets included in prepayments, deposits and other receivables	–	183,707	–	183,707#
Amounts due from related companies	–	5,028	–	5,028
Equity investments at fair value through profit or loss	7,074	–	–	7,074
Pledged deposits	–	294,579	–	294,579
Cash and cash equivalents	–	13,746	–	13,746
	7,074	718,590	5,443	731,107

2008
Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Interest-bearing bank and other borrowings	306,158
Amounts due to related companies	8,443
Amount due to a shareholder	987
Long-term bank loans	3,550
Loans from related companies	747,898
Loan from a shareholder	830
Loans from non-financial institutions	24,402
Trade and bills payables	494,882
Financial liabilities included in other payables and accruals *(Note 30)*	225,347#
Convertible notes	868,953
Tax payable	244,904
	2,926,354

\# The amounts do not include prepayments, advance payments received and provisions that meet the definition of HKAS 37.10.

2007
Financial assets

	Group
	Loans and receivables
	HK$'000
Trade receivables	2,659
Financial assets included in prepayments, deposits and other receivables	5,986
Cash and cash equivalents	163,211
	171,856

2007
Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Interest-bearing bank and other borrowings	85
Long-term bank loan	3,676
Financial liabilities included in other payables and accruals *(Note 30)*	1,026
Tax payable	229
	5,016

Financial assets		**Company**	
	2009	**2008**	**2007**
	Loans and receivables	**Loans and receivables**	**Loans and receivables**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from subsidiaries	1,266,956	1,562,007	157,739
Amounts due from related companies	22,898	–	–
Financial assets included in prepayments, deposits and other receivables	292	290	301
Cash and cash equivalents	4,417	5	161,133
	1,294,563	1,562,302	319,173

Financial liabilities

	2009 Financial liabilities at amortised cost *HK$'000*	2008 Financial liabilities at amortised cost *HK$'000*	2007 Financial liabilities at amortised cost *HK$'000*
Other payables and accruals	7,401	633	865
Amounts due to a shareholder	11,223	–	–
Amounts due to subsidiaries	1,740	–	–
Amounts due from related companies	584	–	–
Convertible notes	638,117	868,953	–
	659,065	869,586	865

45. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

The Group's principal financial instruments comprise bank loans, convertible notes, loans from non-financial institutions, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.3 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related primarily to the Group's long term debt obligations with a floating interest rate.

The Group places the cash with reputable banks. The Group manages its interest rate risks relating to its interest income by placing the cash balances with varying maturity and interest rate terms. Apart from that, it manages its interest rate risk relating to borrowings by closely monitoring interest rate movements and People's Bank of China interest rate policy and renewing the terms of borrowings annually.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
2009	100	(2,452)	(1,839)
	(100)	2,452	1,839
2008	100	(10,227)	(7,670)
	(100)	10,024	7,518
2007	100	(2,282)	2,282
	(100)	1,883	(1,883)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Credit risk or the risk of counterparties defaulting is managed through the application of credit approvals and monitoring procedures. The Group minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At the end of the reporting period, the Group has certain concentration of credit risks as 22% (2008: 41%) of the Group's trade receivables were due from the Group's largest customer.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade are disclosed in note 25 to the financial statements.

Foreign currency risk

The Group had minimal transactional currency exposures in 2007, 2008 and 2009 as almost all of the Group's sales and costs in 2007, 2008 and 2009 were denominated in the functional currencies of the units making the sales. The Group does not use any derivatives to minimise the foreign exchange exposure.

The following table demonstrates the sensitivity to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in United States dollar rate	**Increase/ (decrease) in profit before tax** *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
31 December 2009	5%	–	–
	(5%)	–	–
31 December 2008	5%	(4,014)	(3,513)
	(5%)	4,014	3,513
31 December 2007	5%	–	–
	(5%)	–	–

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash and borrowing facility reserves. In addition, the management continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

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

			Group 2009		
	Within 1 year or on demand *HK$'000*	**1 to 2 years** *HK$'000*	**3 to 5 years** *HK$'000*	**Over 5 years** *HK$'000*	**Total** *HK$'000*
Interest-bearing bank and other borrowings	222,095	396	1,270	7,866	231,627
Amounts due to related companies	6,592	–	–	–	6,592
Amount due to a shareholder	291,223	–	–	–	291,223
Loans from non-financial institutions	–	13,606	–	–	13,606
Trade and bills payables	244,819	–	–	–	244,819
Loan from related parties	–	524,840	–	–	524,840
Financial liabilities included in other payables and accruals	170,889	13,429	–	–	184,318
Convertible notes	14,000	712,000	–	–	726,000
Tax payable	274,540	89,108	–	–	363,648
	1,224,158	1,353,379	1,270	7,866	2,586,673

	Group 2008				
	Within 1 year or on demand	1 to 2 years	3 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	306,158	114	369	3,067	309,708
Amounts due to related parties	8,443	–	–	–	8,443
Trade and bills payables	494,882	–	–	–	494,882
Financial liabilities included in other payables and accruals	225,347	–	–	–	225,347
Amount due to a shareholder	987	–	–	–	987
Amounts due from related parties	–	747,898	–	–	747,898
Loan from non-financial institutions	–	24,402	–	–	24,402
Loan from a shareholder	–	830	–	–	830
Convertible bond	20,000	20,000	1,000,000	–	1,040,000
Tax payable	244,904	–	–	–	244,904
	1,300,721	793,244	1,000,369	3,067	3,097,401

	Company 2009				
	Within 1 year or on demand	1 to 2 years	3 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Due to related parties	13,547	–	–	–	13,547
Other payables and accruals	7,401	–	–	–	7,401
Convertible notes	–	712,000	–	–	712,000
	20,948	712,000	–	–	732,948

	Company 2008				
	Within 1 year or on demand	1 to 2 years	3 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	633	–	–	–	633
Convertible notes	20,000	20,000	1,000,000	–	1,040,000
	20,633	20,000	1,000,000	–	1,040,633

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2007, 2008 and 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to maintain the gearing ratio between 30% and 50%. Net debt includes interest-bearing bank and other borrowings, long-term loans from related parties, less cash and cash equivalents and excludes discontinued operations. Capital includes convertible notes and equity attributable to owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

	31 December 2009	**31 December 2008**	**31 December 2007**
	HK$'000	*HK$'000*	*HK$'000* (for illustration purpose only)
Interest-bearing bank borrowings	222,095	306,158	85
Long-term bank loans	9,532	3,550	3,676
Due to related parties	524,840	758,158	–
Non-current loans from non-financial institutions	13,606	24,402	–
Less: Cash and cash equivalents	(59,068)	(13,746)	(163,211)
Net debt	711,005	1,078,522	(159,450)
Equity	1,785,247	1,033,119	328,552
Convertible notes	638,117	868,953	–
Total capital	2,423,364	1,902,072	328,552
Total capital and net debt	3,134,369	2,980,594	69,102
Gearing ratio	23%	36%	N/A

46. EVENTS AFTER THE REPORTING PERIOD

(a) Placing of existing shares and top up subscription of new shares

On 15 January 2010, GNR as the subscriber and the Company entered into an agreement with Enlighten Securities Limited ("Enlighten") pursuant to which Enlighten agreed to place the placing shares comprising 167,502,000 existing ordinary issued shares of the Company at the placing price of HK$1.5 per placing share to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules) and not connected persons of the Company; and GNR agreed to subscribe up to 167,502,000 new ordinary shares of the Company at the same placing price. The aforesaid placing and subscription were completed on 21 January 2010 and 27 January 2010 respectively. Details of the aforesaid transactions had been disclosed in the Company's announcements dated 18 January 2010 and 27 January 2010 respectively.

(b) Conversion of convertible note

(i) On 10 February 2010, the Company received from Hing Lou Resources Limited ("Hing Lou") a notice for the conversion of the convertible note in the amount of HK$150,000,000. As a result, the Company allotted and issued a total of 69,897,483 conversion shares to Hing Lou at the conversion price of HK$2.146 per conversion share on the same date and Hing Lou has become a shareholder of the Company interested in more than 5% of the issued share capital of the Company since that date. Details of the aforesaid matter had been disclosed in the Company's announcement dated 11 February 2010.

(ii) On 22 February 2010, the Company received from a holder of the convertible note a notice for the conversion of the convertible note in the amount of HK$40,000,000. As a result, the Company allotted and issued a total of 18,639,328 conversion shares to such holder at the conversion price of HK$2.146 per conversion share on the same date.

(iii) On 9 March 2010, the Company received from a holder of the convertible note a notice for the conversion of the convertible note in the amount of HK$53,650,000. As a result, the Company allotted and issued a total of 25,000,000 conversion shares to such holder at the conversion price of HK$2.146 per conversion share on the same date.

(iv) On 18 March 2010, the Company received from a holder of the convertible note a notice for the conversion of the convertible note in the amount of HK$53,650,000. As a result, the Company allotted and issued a total of 25,000,000 conversion shares to such holder at the conversion price of HK$2.146 per conversion share on the same date.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2010, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of the Circular, the Enlarged Group had aggregate outstanding borrowings of approximately HK$908,617,118, comprising unsecured loans from non-financial institutions of approximately HK$13,627,574, unsecured bank loans of approximately HK$466,386,077, secured bank loans of approximately HK$10,238,083, and unsecured loans extended from related parties and a shareholder of the Company with an aggregate amount of approximately HK$418,365,385 as at 30 April 2010, which are interest-free and not due for repayment prior to 1 September 2011. The Enlarged Group's secured loans were secured by the first legal charges over the Enlarged Group's investment properties and building and prepaid land premium situated in Beijing and Hong Kong respectively with an aggregate net book value of approximately HK$5,337,038 and HK$13,067,588 respectively. Moreover, the Enlarged Group had convertible note payable with a par value of HK$402,700,000 and a carrying value of approximately HK$376,792,723 as at 30 April 2010.

Saved as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business on 30 April 2010, the Enlarged Group did not have any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, or hire purchase commitments, any other mortgages and charges or any guarantees or material contingent liabilities.

4. WORKING CAPITAL

Taking into account the Fund Raising Activities and the financial resources available to the Enlarged Group, including the internally generated funds, the available banking facilities and loan provided by related parties, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECT

After the completion of further acquisition of a further 39.9% equity interests in Loudong PRC, the Group will further strengthen its business in coal processing and production of coke and coal-related chemicals in China. In longer term, the Directors believe that the Group has the competitive edge to benefit from the next stage of coking consolidation program which will eliminate weaker coking players in the market in the years ahead. The Directors consider that the Acquisition will have a positive impact on the earning base and financial position of the Enlarged Group and the Enlarged Group will benefit from the Acquisition. With reference to the pro-forma financial statement in Appendix V, the unaudited profit attributable to the owners of the parent will increase from HKD50 million to HKD154 million for the year ended 31 December 2009.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest audited consolidated financial statements of the Group were made up.

The following is the text of a report in respect of the Target Group, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI, a copy of the accountants' report for the Target Group is available for inspection.

ERNST & YOUNG
安 永

18/F Two International Finance Centre
8 Finance Street, Central
Hong Kong

21 June 2010

The Directors
Loudong General Nice Resources (China) Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to General Nice-Loudong Coal & Coke Limited (the "Target") and its 39.9% equity interest in Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Loudong PRC"), (hereinafter collectively referred to as the "Target Group"), prepared on the basis set out in Note 2 below, for the year ended 31 March 2008, the nine month period ended 31 December 2008, and the year ended 31 December 2009 (the "Relevant Periods") for inclusion in the shareholders' circular of Loudong General Nice Resources (China) Holdings Limited (the "Company") dated 21 June 2010 (the "Circular") in relation to the proposed acquisition of 100% equity interest in the Target.

The Target was incorporated in the British Virgin Islands ("the BVI") on 19 September 2007 with limited liability under the International Business Companies Ordinance of the BVI. The principal activities of the Target are investment holding. Details of the principal activities of the associate are set out in note 1 of Appendix III of this Circular.

The directors of the Target have prepared the financial statements in accordance with IFRS for the Relevant Periods. These financial statements were audited by Ernst & Young. There are no differences of accounting practice between IFRS and HKFRS which have a significant effect on these financial statements.

The directors of the Target are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information that gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates made are reasonable, and that the reasons for any significant departure from applicable accounting standards are stated.

For the purpose of this report, we have carried out independent audit procedures on the Relevant Periods' Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. It is our responsibility to form an independent opinion, based on our procedures, on the Relevant Periods' Financial Information and to report our opinion thereon.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Note 2 below, gives a true and fair view of the results and cash flows of the Target Group for each of the Relevant Periods, and of the state of affairs of the Target and of the Target Group as at 31 March 2008, 31 December 2008 and 31 December 2009.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2008, nine month period ended 31 December 2008 and year ended 31 December 2009

	Notes	For the year ended 31 December 2009 HKD	For the nine month period ended 31 December 2008 HKD	For the year ended 31 March 2008 HKD
REVENUE		–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
Other operating income		16	–	
Selling and distribution costs		–	–	–
Administrative expenses		(13,440)	(10,165)	(16,000)
Other operating expenses		(180)	(200)	–
OPERATING LOSS		(13,604)	(10,365)	(16,000)
Share of profit of an associate	5	119,371,778	82,570,229	102,283,987
PROFIT BEFORE TAX		119,358,174	82,559,864	102,267,987
Income tax expense	4	–	–	–
PROFIT FOR THE YEAR/PERIOD		119,358,174	82,559,864	102,267,987
Other comprehensive income for the year/period – movement in foreign exchange translation reserve		977,040	10,985,348	36,998,504
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		120,335,214	93,545,212	139,266,491

COMBINED STATEMENTS OF FINANCIAL POSITION
31 March 2008, 31 December 2008 and 2009

	Notes	**31 December 2009** *HKD*	**31 December 2008** *HKD*	**31 March 2008** *HKD*
NON-CURRENT ASSETS				
Investment in an associate	*5*	679,572,096	559,223,278	465,667,701
Total non-current assets		679,572,096	559,223,278	465,667,701
CURRENT ASSETS				
Due from a shareholder	*8*	–	362,635	373,000
Cash and cash equivalents	*6*	6,535	–	–
Total current assets		6,535	362,635	373,000
CURRENT LIABILITIES				
Due to a shareholder	*8*	285,157,504	–	–
Due to a related party	*8*	4,500,000	–	–
Total current liabilities		289,657,504	–	–
NET CURRENT (LIABILITIES)/ASSETS		(289,650,969)	559,585,913	466,040,701
TOTAL ASSETS LESS CURRENT LIABILITIES		389,921,127	559,585,913	466,040,701
Net assets		389,921,127	559,585,913	466,040,701
EQUITY				
Paid-up capital	*7*	389,000	389,000	389,000
Reserves		85,346,102	374,369,062	363,383,714
Retained profits		304,186,025	184,827,851	102,267,987
Total equity		389,921,127	559,585,913	466,040,701

COMBINED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2008, nine month period ended 31 December 2008 and year ended 31 December 2009

	Paid-up capital	**Reserves**	**Retained profits**	**Total equity**
	HKD	*HKD*	*HKD*	*HKD*
	(note 7)			
1 April 2007	–	326,385,210	–	326,385,210
Issue of share capital	389,000	–	–	389,000
Comprehensive income for the year	–	36,998,504	102,267,987	139,266,491
At 31 March 2008 and 1 April 2008	389,000	363,383,714	102,267,987	466,040,701
Comprehensive income for the period	–	10,985,348	82,559,864	93,545,212
At 31 December 2008 and 1 January 2009	389,000	374,369,062	184,827,851	559,585,913
Comprehensive income for the year	–	977,040	119,358,174	120,335,214
Distribution of reserves	–	(290,000,000)	–	(290,000,000)
At 31 December 2009	389,000	85,346,102	304,186,025	389,921,127

COMBINED STATEMENT OF CASH FLOWS

For the year ended 31 March 2008, nine month period ended 31 December 2008 and year ended 31 December 2009

	Notes	For the year ended 31 December 2009 HKD	For the nine month period ended 31 December 2008 HKD	For the year ended 31 March 2008 HKD
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:		119,358,174	82,559,864	102,267,987
Adjustments for:				
Share of profit of an associate	5	(119,371,778)	(82,570,229)	(102,283,987)
		(13,604)	(10,365)	(16,000)
Decrease in due from a shareholder	8	20,139	10,365	16,000
		20,139	10,365	–
Net cash inflow from operating activities		6,535	–	–
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash outflow from investing activities		–	–	–
CASH FLOWS FROM FINANCING ACTIVITIES				
Net cash outflow from financing activities		–	–	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,535	–	–
Cash and cash equivalents at beginning of year/period		–	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		6,535	–	–

STATEMENTS OF FINANCIAL POSITION – COMPANY

31 March 2008, 31 December 2008 and 2009

	Notes	31 December 2009 HKD	31 December 2008 HKD	31 March 2008 HKD
NON-CURRENT ASSETS				
Investment in an associate, at cost	5	299,933,808	–	–
Total non-current assets		299,933,808	–	–
CURRENT ASSETS				
Due from a shareholder	8	–	362,635	373,000
Cash and cash equivalents	6	6,535	–	–
Total current assets		6,535	362,635	373,000
CURRENT LIABILITIES				
Due to a shareholder	8	285,157,504	–	–
Due to a related party	8	4,500,000	–	–
Total current liabilities		289,657,504	–	–
NET CURRENT (LIABILITIES)/ASSETS		(289,650,969)	362,635	373,000
TOTAL ASSETS LESS CURRENT LIABILITIES		10,282,839	362,635	373,000
Net assets		10,282,839	362,635	373,000
EQUITY				
Paid-up capital	7	389,000	389,000	389,000
Retained profit/(accumulated losses)		9,893,839	(26,365)	(16,000)
Total equity		10,282,839	362,635	373,000

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2008, the nine month period ended 31 December 2008 and the year ended 31 December 2009

1. CORPORATE INFORMATION

GENERAL NICE-LOUDONG COAL & COKE LIMITED (the "Target") was incorporated in the British Virgin Islands on 19 September 2007. The registered office and principal place of business of the Target is located at OMC Chambers, P.O. Box 3152, Road Town, Tortola, British Virgin Islands.

The principal activities of the Target are investment holding. There has been no change in the principal activities of the Target during the period between incorporation and 31 December 2009.

At 31 December 2009, the ultimate holding company of the Target is Xiaoyi Loudong Industry and Trading Group Company ("Xiaoyi"), a company incorporated in the People's Republic of China.

2.1 BASIS OF PREPARATION

The Financial Information of the Target have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The Financial Information have been prepared on a historical cost basis. The financial statements are presented in Hong Kong dollars (HKD) except when otherwise indicated.

On 17 November 2009, the Target acquired its interest in its associate from Hing Lou Resources Limited ("Hing Lou"). Both the Target and Hing Lou were under the common control of Xiaoyi. Accordingly, the acquisition of the interest in the associate has been accounted for as a transaction under common control by application of merger accounting principles. The Financial Information has been prepared on the basis as if the associate has been acquired at the start of the periods reported upon.

The Target has also presented its own separate statement of financial position wherein the investment in associate is stated at cost, less any impairment provision. The purpose of presenting such statement of financial position is to provide additional useful information for the users of the financial statement.

The financial statements have been prepared on a going concern basis as subsequent to year end, the Target's holding company, Hing Lou, and its related party, Xiaoyi, have waived these obligations of the Target. Accordingly, the Target will have sufficient funds to support its daily operation in the foreseeable future, and will not encounter any going concern problem due to inadequate working capital.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

All IFRSs effective for the relevant periods together with the relevant transitional provisions have been adopted by the Target in the preparation of the Financial Information throughout the Relevant Periods.

The Target has not applied the following new and revised IFRSs, that have been issued but are not yet effective in the Financial Information:

•	IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
•	IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
•	IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash– settled Share-based Payment Transactions* [2]
•	IFRS 3 (Revised)	*Business Combinations*[1]
•	IFRS 9	*Financial Instruments*[6]
•	IAS 24 (Revised)	*Related Party Disclosures*[5]
•	IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
•	IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation Classification of Rights Issues*[3]
•	IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
•	IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
•	IFRIC 17	*Distribution of Non-cash Assets to Owners*[1]
•	IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
•	Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

Standards issued but not yet effective up to the date of issuance of the Target's financial statements are listed below.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

Apart from the above, Improvements to IFRSs 2009 has been issued which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

Further information about these changes that are expected to significantly affect the Target are as follows:

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

The Target expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

It is expected that IAS 39 will be replaced by IFRS 9 in its entirety by the end of 2010. The Target expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Target expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Target currently does not have any significant transactions with government related entities.

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Target expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 Events after the Reporting Period and IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations. The interpretation will only have a significant affect on the Target in the event it distributes non cash assets.

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Target expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The interpretation will only have a significant impact on the Target in the event that the Target undertakes such a transaction in the future.

Improvements to IFRSs 2009 issued in May 2009 sets out amendments to a number of IFRSs. Except for the amendment to IAS 18 and the amendment to IFRS 8, the Target expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Target.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

The Target's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Target has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Target's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Target recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Target and the associate are eliminated to the extent of the interest in the associate.

Foreign currency translations

The Target's financial statements are presented in Hong Kong Dollars (HKD), which is the Target's functional and presentation currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Target's associate is the Renminbi (RMB). As at the end of the reporting period, the Target's share of the net assets of the associate is translated into HKD at the period end rate, while the Target's share of the associate's profit for the period is translated at the weighted average rate for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the Foreign Exchange Translation Reserve.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Target and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Target assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Target has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(1) Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

(2) Dividends

Revenue is recognised when the right to receive the payment is established.

Taxes

Current income tax

Income tax is provided at rates applicable to enterprises in the British Virgin Islands, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on applicable income tax laws and regulations.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Target determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Subsequent measurement

During the Relevant Periods, the Target did not hold any financial assets within the scope of IAS 39 other than cash.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of its financial liabilities are determined at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The Target's financial liabilities consisted of payables to a shareholder and a related party.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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

Derecognition

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

Cash consists of cash on hand and cash at banks including time deposits.

Cash equivalents are short-term highly liquid investments which are readily convertible into known amounts of cash, which are within three months of maturity when acquired and which are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Target has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Target; (ii) has an interest in the Target; or (iii) has joint control over Target;

(b) the party is an associate;

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

(d) the party is a member of the key management personnel of the Target or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) 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 (d) or (e).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Target's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Functional currency

The Target's management has determined that its functional currency is HKD on the following grounds:

- The Target's source of funds is primarily denominated in HKD

- While the functional currency of the Target's associate is the RMB, the RMB is not freely convertible under the PRC's Foreign Exchange Control Regulations. The associate is permitted to exchange RMB to other currencies through banks authorised to conduct foreign exchange business. Management has assessed that future returns of or on capital invested in the associate are likely to be denominated in HKD.

4. INCOME TAX EXPENSE

The Target is not subject to corporate income tax according to the regulations in the British Virgin Islands, the place of incorporation of the Target. For the year ended 31 March 2008, the nine month period ended 31 December 2008 and the year ended 31 December 2009, the Target's only income was its share of profit of its associate. This income is stated net of applicable income taxes in the Target's statement of comprehensive income.

5. INVESTMENT IN AN ASSOCIATE

	31 December 2009 *HKD*	**31 December 2008** *HKD*	**31 March 2008** *HKD*
Share of the associate's net assets	679,572,096	559,223,278	465,667,701

Particulars of the principal associate are as follows:

Name	**Place of incorporation/ registration**	**Percentage of ownership interest attributable to the Target**	**Principal activities**
Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Loudong PRC")	Shanxi Province, the PRC	39.9%	Production and trading of coke, coal gas and chemical by products and generation of electricity

The following table illustrates the summarised financial information of the Target's associate extracted from its audited financial statements:

	31 December 2009 *HKD*	**31 December 2008** *HKD*	**31 March 2008** *HKD*
Assets	3,497,272,703	3,524,991,536	3,245,891,252
Liabilities	1,794,084,493	2,123,429,436	2,078,804,283
Revenue	1,224,726,845	1,382,682,501	1,751,849,230
Profit	299,177,388	206,942,932	256,350,844

In the Target's separate statement of financial position, as at 31 December 2009, the investment in associate is stated at cost of HKD290,000,000. The investment in associate was acquired from the Target's shareholder, Hing Lou, in November 2009, with the consideration financed by the Vendor. No provision for impairment has been recorded.

In the Target's Financial Information, the liability arising on the acquisition of the investment in associate is accounted for as a distribution to the parent entity.

6. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

7. PAID-UP CAPITAL

Registered and paid-up capital:

	31 December 2009		**31 December 2008**		**31 March 2008**	
	%	*HKD*	*%*	*HKD*	*%*	*HKD*
General Nice Resources (Hong Kong) Limited ("GNR")	–	–	100	389,000	100	389,000
Hing Lou	100	389,000	–	–	–	–
	100	389,000	100	389,000	100	389,000

Prior to 2 July 2009, the Target was a subsidiary of GNR. On that date, GNR disposed of its interest in the Target to an employee who in turn sold the interest to Hing Lou, a wholly-owned subsidiary of Xiaoyi on 28 October 2009. Hence, on 31 December 2009, the ultimate holding company is Xiaoyi.

8. RELATED PARTY TRANSACTIONS

(a) Transaction with related parties

In addition to the transactions disclosed elsewhere in these financial statements, the Target had the following material transactions with related parties during the year:

	For the year ended 31 December 2009	**For the period ended 31 December 2008**	**For the year ended 31 March 2008**
	HKD	*HKD*	*HKD*
Loan from a shareholder	285,157,504	–	–
Loan from a related party	4,500,000	–	–
	289,657,504	–	–

(b) Balance with related parties

The balances with a shareholder and a related party are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximated to their fair values as at the balance sheet date.

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

Outstanding balances with related parties:

Current portion

	31 December 2009	31 December 2008	31 March 2008
	HKD	*HKD*	*HKD*
Due from a shareholder			
GNR	–	362,635	373,000
Due to a shareholder			
Hing Lou	285,157,504	–	–
Due to a related party			
Xiaoyi	4,500,000	–	–

9. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target's principal financial instruments comprise loans from shareholders and cash. The main purpose of these financial instruments is to raise finance for the Target's operations.

The main risks arising from the Target's financial instruments are liquidity risk. The policies for managing this risk are summarized below.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Target's short, medium and long term funding and liquidity management requirements. The Target manages liquidity risk by maintaining adequate cash and borrowing facility reserves. In addition, the management continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

10. NON CASH TRANSACTIONS

During the year ended 31 March 2008, the Target issued shares for a consideration of HKD389,000 which was recorded as a receivable at year end.

During the year ended 31 December 2009, the Target acquired an interest in associate for a consideration of HKD290,000,000 which was financed by the Vendor.

11. COMPARATIVES

In accordance with merger accounting principles, comparative financial statements have been presented as if the acquisition of the associate took place at the start of the first period reported on.

The following is the text of a report in respect of Loudong PRC, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VI, a copy of the accountants' report for Loudong PRC is available for inspection.

ERNST & YOUNG
安 永

18/F Two International Finance Centre
8 Finance Street, Central
Hong Kong

21 June 2010

The Directors
Loudong General Nice Resource (China) Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Loudong PRC"). The financial information was prepared on the basis set out in Note 2 below, for the years ended 31 March 2007 and 2008, the nine month period ended 31 December 2008, and the year ended 31 December 2009 (the "Relevant Periods") for inclusion in the shareholders' circular of Loudong General Nice Resources (China) Holdings Limited (the "Company") dated 21 June 2010 (the "Circular") in relation to the proposed acquisition of 100% equity interest in General Nice-Loudong Coal & Coke Limited (the "Target Company"), which holds 39.9% of equity interest in Loudong PRC (hereinafter collectively referred to as the "Target Group").

Loudong PRC was incorporated in the People's Republic of China ("the PRC") as a limited liability company in 1994, with an operating tenure of thirty years. Loudong PRC's current shareholders are Abterra Coal & Coke Limited ("Abterra"), the Target Company, and Shanxi Da Jin International (Group) Corporation ("Da Jin") with 50.1%, 39.9% and 10% of equity interests in Loudong PRC, respectively. The principal activities of Loudong PRC are production and trading of coke, coal gas and chemical by-products and generation of electricity.

The directors of Loudong PRC have prepared the financial statements in accordance with IFRS for the Relevant Periods. These financial statements were audited by Ernst & Young. There are no differences of accounting practice between IFRS and HKFRS which have a significant effect on these financial statements.

The directors of Loudong PRC are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information that gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates made are reasonable, and that the reasons for any significant departure from applicable accounting standards are stated.

For the purpose of this report, we have carried out independent audit procedures on the Relevant Periods' Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. It is our responsibility to form an independent opinion, based on our procedures, on the Relevant Periods' Financial Information and to report our opinion thereon.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Note 2 below, gives a true and fair view of the results and cash flows of Loudong PRC for each of the Relevant Periods, and of the state of affairs of Loudong PRC as at 31 March 2007 and 2008 and 31 December 2008 and 2009.

INCOME STATEMENTS

For the years ended 31 March 2007 and 2008, nine month period ended 31 December 2008, and year ended 31 December 2009

	Notes	For the year ended 31 December 2009 *RMB*	For the nine-month period ended 31 December 2008 *RMB*	For the year ended 31 March 2008 *RMB*	For the year ended 31 March 2007 *RMB*
REVENUE	4	1,079,223,172	1,232,585,402	1,655,760,300	1,211,930,415
Cost of sales		(679,274,422)	(765,930,165)	(1,146,780,982)	(816,476,146)
Gross profit		399,948,750	466,655,237	508,979,318	395,454,269
Other operating income	5	108,763,110	23,429,818	25,882,697	12,203,408
Selling and distribution costs		(47,083,666)	(172,724,145)	(123,618,515)	(91,829,118)
Administrative expenses		(35,236,318)	(65,811,642)	(71,573,269)	(25,702,604)
Other operating expenses	6	(23,964,611)	(20,243,583)	(11,770,830)	(5,154,430)
OPERATING PROFIT		402,427,265	231,305,685	327,899,401	284,971,525
Finance costs	7	(14,848,220)	(20,003,145)	(34,957,510)	(48,425,706)
PROFIT BEFORE TAX	8	387,579,045	211,302,540	292,941,891	236,545,819
Income tax expense	9	(123,945,427)	(26,824,298)	(50,651,891)	(51,490,466)
PROFIT FOR THE YEAR/PERIOD		263,633,618	184,478,242	242,290,000	185,055,353
Other comprehensive income for the year/period		–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		263,633,618	184,478,242	242,290,000	185,055,353

STATEMENTS OF FINANCIAL POSITION

31 March 2007 and 2008, and 31 December 2008 and 2009

	Notes	31 December 2009 RMB	31 December 2008 RMB	31 March 2008 RMB	31 March 2007 RMB
NON-CURRENT ASSETS					
Property, plant and equipment	10	1,634,956,245	1,683,377,221	1,573,519,856	1,078,268,966
Construction in progress	11	207,118,346	353,020,928	460,710,523	585,903,790
Prepaid land premiums	12	32,512,866	33,311,039	33,909,668	34,707,842
Investment in an associate	13	5,100,000	5,100,000	5,100,000	5,100,000
Available-for-sale investments	14	5,000,000	4,800,000	–	–
Other long-term assets	15	176,100,000	–	–	–
Deferred tax assets	16	17,426,049	35,726,303	31,186,884	20,487,648
Total non-current assets		2,078,213,506	2,115,335,491	2,104,426,931	1,724,468,246
CURRENT ASSETS					
Inventories	17	156,022,849	226,031,893	110,332,099	90,572,866
Trade and bills receivables	18	162,786,689	194,383,888	214,131,562	115,368,495
Prepayments, deposits and other receivables	19	520,862,685	294,752,816	357,697,564	210,332,337
Equity investments at fair value through income statement	20	500,000	6,238,077	10,997,468	3,920,510
Due from related companies	29	4,498,792	4,434,410	1,757,351	–
Due from a shareholder	29	–	–	20,847,170	–
Pledged deposits	21	118,786,764	259,786,370	76,734,462	94,107,033
Cash and cash equivalents	21	37,677,330	7,691,841	27,623,411	3,042,781
Total current assets		1,001,135,109	993,319,295	820,121,087	517,344,022
CURRENT LIABILITIES					
Trade and bills payables	22	217,391,073	437,105,661	225,163,968	301,629,194
Other payables and accruals	23	181,989,905	248,984,906	339,321,846	163,347,167
Interest-bearing bank borrowings	24	193,000,000	269,900,000	304,000,000	327,340,000
Loans from non-financial institutions		–	–	–	87,710,000
Due to shareholders	29	–	–	–	377,146,694
Due to a related company	29	5,290,889	7,446,004	20,295,390	21,024,175
Tax payable		241,542,383	137,095,288	184,190,806	122,839,679
Total current liabilities		839,214,250	1,100,531,859	1,072,972,010	1,401,036,909
NET CURRENT ASSETS/(LIABILITIES)		161,920,859	(107,212,564)	(252,850,923)	(883,692,887)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,240,134,365	2,008,122,927	1,851,576,008	840,775,359

	Notes	31 December 2009 RMB	31 December 2008 RMB	31 March 2008 RMB	31 March 2007 RMB
NON-CURRENT LIABILITIES					
Tax payable	9	78,459,235	78,459,235	–	–
Other long-term payables	23	11,824,781	11,824,781	–	–
Due to related companies	29	335,401,317	437,831,685	490,071,796	–
Due to shareholders	29	302,811,813	222,463,625	288,438,853	–
Loans from non-financial institutions	24	11,980,000	21,520,000	21,520,000	31,520,000
Total non-current liabilities		740,477,146	772,099,326	800,030,649	31,520,000
Net assets		1,499,657,219	1,236,023,601	1,051,545,359	809,255,359
EQUITY					
Paid-up capital	25	246,000,000	246,000,000	246,000,000	246,000,000
Reserves	26	123,000,000	112,472,102	92,540,807	63,240,423
Retained profits		1,130,657,219	877,551,499	713,004,552	500,014,936
Total equity		1,499,657,219	1,236,023,601	1,051,545,359	809,255,359

STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 March 2007 and 2008, nine month period ended 31 December 2008, and year ended 31 December 2009

	Paid-up capital *RMB* *(note 25)*	Reserves *RMB* *(note 26)*	Retained profits *RMB*	Total equity *RMB*
At 1 April 2006	246,000,000	36,385,506	341,814,500	624,200,006
Comprehensive income for the year	–	–	185,055,353	185,055,353
Appropriation	–	26,854,917	(26,854,917)	–
At 31 March 2007 and 1 April 2007	246,000,000	63,240,423	500,014,936	809,255,359
Comprehensive income for the year	–	–	242,290,000	242,290,000
Appropriation	–	29,300,384	(29,300,384)	–
At 31 March 2008 and 1 April 2008	246,000,000	92,540,807	713,004,552	1,051,545,359
Comprehensive income for the period	–	–	184,478,242	184,478,242
Appropriation	–	19,931,295	(19,931,295)	–
At 31 December 2008 and 1 January 2009	246,000,000	112,472,102	877,551,499	1,236,023,601
Comprehensive income for the year	–	–	263,633,618	263,633,618
Appropriation	–	10,527,898	(10,527,898)	–
At 31 December 2009	246,000,000	123,000,000	1,130,657,219	1,499,657,219

STATEMENTS OF CASH FLOWS

For the years ended 31 March 2007 and 2008, nine month period ended 31 December 2008, and year ended 31 December 2009

	Notes	For the year ended 31 December 2009 RMB	For the nine-month period ended 31 December 2008 RMB	For the year ended 31 March 2008 RMB	For the year ended 31 March 2007 RMB
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax:		387,579,045	211,302,540	292,941,891	236,545,819
Adjustments for:					
Depreciation of property, plant and equipment	8, 10	77,488,989	74,755,225	99,373,227	88,971,798
Amortisation of prepaid land premium	12	798,173	598,629	798,174	798,172
Provision for doubtful debts	18	3,998,040	36,989,281	40,000,000	329,016
Reversal of provision for doubtful debts	18	(37,631,165)	(20,023,304)	(101,811)	(3,580,000)
(Reversal)/Provision for inventories	17	(15,969,513)	15,969,513	–	–
Fair value loss/(gain) on the equity investment at fair value through income statement	6	–	3,759,391	(576,958)	(1,820,681)
Finance costs	7	14,848,220	20,003,145	34,957,510	48,425,706
Interest income	5	(6,039,395)	(2,367,819)	(2,598,381)	(3,102,445)
Loss/(Gain) on disposal of property, plant and equipment, net	6	33,160	1,044,916	(18,342)	545,610
Gain on disposal of the equity investment at fair value through income statement	5	(2,188,761)	(837,142)	–	–
		422,916,793	341,194,375	464,775,310	367,112,995
Decrease/(increase) in inventories	17	85,978,557	(131,669,307)	(19,759,233)	132,959,779
Decrease/(increase) in trade and bills receivables	18	65,230,324	2,781,697	(138,661,256)	69,234,862
(Increase)/decrease in prepayments, deposits and other receivables		(114,718,809)	(127,902,262)	(129,992,656)	92,752,319
Decrease in due from a director		–	–	–	16,497,098
(Increase)/decrease in due from related companies	29	(64,382)	(2,677,059)	(1,757,351)	3,468,688
Decrease/(increase) in due from a shareholder		–	20,847,170	(20,847,170)	–
(Decrease)/increase in trade and bills payables		(219,714,588)	201,289,824	(76,465,226)	(72,538,247)
(Decrease)/increase in other payables and accruals		(19,991,230)	(77,586,156)	169,425,679	26,865,391
(Decrease)/increase in due to a related company	29	(2,155,115)	(12,849,386)	(728,785)	7,927,556
		217,481,550	213,428,896	245,989,312	644,280,441
Income tax paid		(1,198,078)	–	–	–
Net cash inflow from operating activities		216,283,472	213,428,896	245,989,312	644,280,441

	Notes	For the year ended 31 December 2009 RMB	For the nine-month period ended 31 December 2008 RMB	For the year ended 31 March 2008 RMB	For the year ended 31 March 2007 RMB
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		6,039,395	2,367,819	2,598,381	3,102,445
Purchases of property, plant and equipment		(18,220,956)	(12,079,117)	(240,983,445)	(14,102,179)
Deposit paid for purchase of a subsidiary		(176,100,000)	–	–	–
Additions to construction in progress		(3,081,466)	(47,834,552)	(222,022,147)	(74,050,929)
Proceeds from disposal of items of property, plant and equipment		9,000	392,729	142,084	2,565,000
Purchase of available-for-sale investments		(200,000)	(4,800,000)	–	–
Purchases of the equity investment at fair value through income statement		(500,000)	(500,000)	(6,500,000)	(2,099,829)
Proceeds from disposal of equity investment at fair value through income statement		8,426,838	2,337,142	–	–
Decrease in pledged deposits		140,999,606	–	–	–
Net cash outflow from investing activities		(42,627,583)	(60,115,979)	(466,765,127)	(84,585,492)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		390,500,000	420,107,031	735,700,000	570,884,650
Repayment of borrowings		(476,940,000)	(454,207,031)	(856,750,000)	(714,400,000)
Interest paid		(35,148,220)	(20,929,148)	(34,957,510)	(55,625,706)
Increase/(decrease) in amounts due to shareholders	29	80,348,188	(65,975,228)	(88,707,841)	(372,149,682)
(Decrease)/increase in amounts due to related companies	29	(102,430,368)	(52,240,111)	490,071,796	–
Net cash (outflow)/inflow from financing activities		(143,670,400)	(173,244,487)	245,356,445	(571,290,738)

	Notes	For the year ended 31 December 2009 RMB	For the nine-month period ended 31 December 2008 RMB	For the year ended 31 March 2008 RMB	For the year ended 31 March 2007 RMB
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		29,985,489	(19,931,570)	24,580,630	(11,595,789)
Cash and cash equivalents at beginning of year/period		7,691,841	27,623,411	3,042,781	14,638,570
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		37,677,330	7,691,841	27,623,411	3,042,781
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	*21*	156,464,094	267,478,211	104,357,873	97,149,814
Less: Pledged deposits	*21*	(118,786,764)	(259,786,370)	(76,734,462)	(94,107,033)
		37,677,330	7,691,841	27,623,411	3,042,781

NOTES TO FINANCIAL STATEMENTS

For the years ended 31 March 2007 and 2008, nine month period ended 31 December 2008, and year ended 31 December 2009

1. CORPORATE INFORMATION

Shanxi Loudong-General Nice Coking & Gas Co., Ltd. was established by General Nice Development Limited, Xiaoyi Loudong Industry & Trading Group Company and General Nice (Tianjin) Industry Co., Ltd ("GNT") in the People's Republic of China ("the PRC") as a limited liability company in 1994, with an operating tenure of thirty years. The registered office and principal place of business of Loudong PRC is located at Loudong Village, Xiaoyi City, Shanxi Province, China.

Loudong PRC's current shareholders are Abterra Coal & Coke Limited ("Abterra"), the Target, and Shanxi Da Jin International (Group) Corporation ("Da Jin") with 50.1%, 39.9%, and 10% of equity interests in Loudong PRC respectively.

The principal activities of Loudong PRC are production and trading of coke, coal gas and chemical by-products and generation of electricity. There is no change in the principal activities of the Loudong PRC during the year ended 31 December 2009.

2.1 BASIS OF PREPARATION

The financial statements of Loudong PRC have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for equity investment at fair value through profit and loss that has been measured at fair value. The financial statements are presented in Renminbi ("RMB") except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

For the year ended 31 December 2009

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009. Except as set out below, the adoption of these new and amended IFRS has had no significant effect on these financial statements:

- IFRS 1 and IAS 27 Amendments — Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IFRS 2 Amendments — Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- IFRS 7 Amendments — Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- IFRS 8 — *Operating Segments*
- IAS 1 (Revised) — *Presentation of Financial Statements*
- IAS 23 (Revised) — *Borrowing Costs*
- IAS 32 and IAS 1 Amendments — Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
- IFRIC 9 and IAS 39 Amendments — Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 18 *Transfer of Assets from Customers*
- Improvements to IFRSs (May 2008) *Amendments to a number of IFRSs*

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of Loudong PRC, its impact is described below:

(a) Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires Loudong PRC to consider whether there is an indicator of impairment. The amendment is applied prospectively. IAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As Loudong PRC is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As Loudong PRC has not entered into sharebased payments schemes with non-vesting conditions attached, the amendment has no impact on the financial position or result of operation of Loudong PRC.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. As Loudong PRC does not have any significant holdings of assets or liabilities measured at fair value, the fair value measurement disclosure is not irrelevant. The revised liquidity risk disclosures are presented in note 30 to the financial statement.

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which Loudong PRC operates, and revenue from Loudong PRC's major customers. The standard has no impact on the financial position or results of operations of Loudong PRC.

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. Loudong PRC has elected to present one single statement.

(f) Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether Loudong PRC is acting as a principal or as an agent. The features to consider are whether Loudong PRC (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. Loudong PRC has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has no impact on the financial position or results of operations of Loudong PRC.

(g) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As Loudong PRC's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of Loudong PRC. During the year, borrowing costs of RMB20,300,000 have been capitalised on qualifying assets included in construction in progress as shown in note 7 to the financial statements.

(h) In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs.

Except for the amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary which is effective for annual periods beginning on or after 1 July 2009, Loudong PRC adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to Loudong PRC.

For the nine month period ended 31 December 2008

Loudong PRC has adopted the following new and amended IFRS and IFRIC interpretations during the period. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of Loudong PRC. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions

  Loudong PRC has adopts IFRIC Interpretation 11 insofar as it applies to consolidated financial statement. This interpretation requires arrangements whereby an employee is granted rights to an entirty's equity instruments to be accounted for an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. Loudong PRC amended its accounting policy accordingly. Loudong PRC has not issued the instruments caught by this interpretation.

- IFRIC 12 Service Concession Arrangements

  The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Loudong PRC had no such arrangements, and therefore, this interpretation has no impact on Loudong PRC.

  Loudong PRC has also early adopted the following new IFRIC interpretation during the year. Adoption of this interpretation did not have any effect on the financial performance or position of Loudong PRC. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 8 Operating Segments

  This standard requires disclosure of information about Loudong PRC's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of Loudong PRC. Loudong PRC determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 4, including revised comparative information.

For the year ended 31 March 2008

Loudong PRC has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of Loudong PRC. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IAS1 Presentation of Financial Statements: Capital Disclosure

  This amendment requires Loudong PRC to make new disclosures to enable users of the financial statements to evaluate Loudong PRC's objectives, policies and processes for managing capital. These new disclosures are shown in Note 30.

- IFRS 7 Financial Instruments: Disclosures

  This standard requires disclosures that enable users of the financial statements to evaluate the significance of Loudong PRC's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

- IFRIC 8 Scope of IFRS 2

  This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments have not been issued to employees during the year, the interpretation had no impact on the financial position or performance of Loudong PRC.

- IFRIC 9 Reassessment of Embedded Derivatives

  IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As Loudong PRC has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of Loudong PRC.

- IFRIC 10 Interim Financial Reporting and Impairment

  Loudong PRC adopted IFRIC Interpretation 10 as of 1 April 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As Loudong PRC had no impairment losses recognized in an interim period, the interpretation had no impact on the financial position or performance of Loudong PRC.

- IFRIC 11 IFRS2 Group and Treasury Share Transactions

  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. As Loudong PRC had no such arrangements, the interpretation had no impact on the financial position or performance of Loudong PRC.

- IFRIC 12 Service Concession Arrangements

  IFRIC 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. As Loudong PRC has no such arrangements, IFRIC 12 will not have any effect on Loudong PRC's results of operations and financial position.

Loudong PRC has also early adopted the following new IFRIC interpretation during the year. Adoption of this interpretation did not have any effect on the financial performance or position of Loudong PRC. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 8 Operating Segments

  This standard requires disclosure of information about Loudong PRC's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of Loudong PRC. Loudong PRC determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting.

For the year ended 31 March 2007

Loudong PRC has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on or give rise to additional disclosures in the financial statements of Loudong PRC.

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC 4 Determine whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

The principal effects of these changes are as follows:

(a) IAS 19 Employee Benefits

As of 1 January 2006, Loudong PRC adopted the amendment to IAS 19, which requires entities who participate in defined benefits plans to make additional disclosures providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. As Loudong PRC participated in statutory defined contribution retirement plans, this amendment did not have an effect on the financial statements.

(b) IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, Loudong PRC adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of Loudong PRC's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. As Loudong PRC had no foreign investment, this amendment did not have an effect on the financial statements.

(c) IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As Loudong PRC currently had no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. As Loudong PRC had not previously used this option, the amendment did not have an effect on the financial statements.

(d) IFRIC 4 Determining Whether an Arrangement contains a Lease

Loudong PRC adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This amendment in accounting policy did not have a significant impact on Loudong PRC as at 31 March 2006 or 31 March 2007.

(e) IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Loudong PRC adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a company's assets. As Loudong PRC does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

(f) IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Loudong PRC adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. As Loudong PRC does not currently participate in this specific market nor has any operation in a jurisdiction that implements the EU Directive, this interpretation had no impact on the financial statements.

(g) IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

Loudong PRC adopted IFRIC Interpretation 7 as of 1 March 2006, which clarifies the requirements regarding restatements of comparative amounts in financial statements and deferred tax items in the opening balance sheet, for entities adopting IAS 29. As Loudong PRC does not currently operate in a country with hyperinflationary economies, this interpretation has had no impact on the financial statements.

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective in the Financial Information:

• IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
• IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
• IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash–settled Share-based Payment Transactions*[2]
• IFRS 3 (Revised)	*Business Combinations*[1]
• IFRS 9	*Financial Instruments*[6]
• IAS 24 (Revised)	*Related Party Disclosures*[5]
• IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
• IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation Classification of Rights Issues*[3]
• IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
• IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
• IFRIC 17	*Distribution of Non-cash Assets to Owners*[1]
• IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
• Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

Standards issued but not yet effective up to the date of issuance of Loudong PRC's financial statements are listed below.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

Apart from the above, Improvements to IFRSs 2009 has been issued which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

Further information about these changes that are expected to significantly effect Loudong PRC are as follows:

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

Loudong PRC expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

It is expected that IAS 39 will to be replaced by IFRS 9 in its entirety by the end of 2010. Loudong PRC expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. Loudong PRC expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as Loudong PRC currently does not have any significant transactions with government related entities.

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. Loudong PRC expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Period and IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on Loudong PRC.

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. Loudong PRC expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition* and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The interpretation will only have a material financial impact on Loudong PRC in the event that Loudong PRC undertakes such a transaction in the future.

Improvements to IFRSs 2009 issued in May 2009 sets out amendments to a number of IFRSs. Except for the amendment to IAS 18 and the amendment to IFRS 8, Loudong PRC expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on Loudong PRC.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translations

Loudong PRC's financial statements are presented in RMB, which is Loudong PRC's functional and presentation currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Loudong PRC and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. Loudong PRC assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. Loudong PRC has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(1) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

(2) Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

(3) Dividends

Revenue is recognised when the right to receive the payment is established.

(4) Rental income

Rental income arising from operating leases is accounted for on a straight line basis over the lease terms.

Taxes

Current income tax

Income tax is provided at rates applicable to enterprises in the PRC, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax laws and regulations.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Retirement benefits

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the income statement as incurred.

Loudong PRC is required to provide certain staff pension benefits to their employees under the existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the funds for Loudong PRC's employees.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Loudong PRC determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

Derecognition

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

- The rights to receive cash flows from the asset have expired.

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

When Loudong PRC has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Loudong PRC's continuing involvement in the asset.

In that case, Loudong PRC also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Loudong PRC has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

Loudong PRC first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and 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 expected 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Loudong PRC. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of its financial liabilities are determined at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Loudong PRC's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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

Derecognition

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Notes 14 and 20.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Office building	30 years
Coking plant facility	30 years
Office equipment	10 years
Machinery	20 years
Vehicles	10 years
Transportation pipe	20 years
Electricity transfer system	20 years
Meter	20 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Construction in progress

Construction in progress represents property, plant and equipment under construction which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is transferred to the appropriate category of property, plant and equipment when completed and ready for use.

At the end of the year/period, construction in progress is examined on an individual project basis and impairment provisions are made against those projects which have been suspended for a long period of time and the construction of which is not expected to resume within three years, or for any project under construction but considered obsolete in terms of its technology and functionality and where there exists significant uncertainty as to whether it will bring future economic benefits to Loudong PRC.

Leases

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment in an associate

Loudong PRC's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which Loudong PRC has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in Loudong PRC's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, Loudong PRC recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between Loudong PRC and the associate are eliminated to the extent of the interest in the associate.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	–	purchase cost on a weighted average basis;
Finished goods and work in progress	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

Loudong PRC assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Loudong PRC estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, Loudong PRC estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Cash and cash equivalents

Cash consists of cash on hand and cash at banks including time deposits.

Cash equivalents are short-term highly liquid investments which are readily convertible into known amounts of cash, which are within three months of maturity when acquired and which are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when Loudong PRC has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Related parties

A party is considered to be related to Loudong PRC if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, Loudong PRC; (ii) has an interest in Loudong PRC; or (iii) has joint control over Loudong PRC;

(b) the party is an associate;

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

(d) the party is a member of the key management personnel of Loudong PRC or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) 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 (d) or (e).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Operating lease commitments – Loudong PRC as lessor

Loudong PRC has entered into commercial leases in respect of certain property, plant and equipment used for mining purposes. Loudong PRC has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains the significant risks and rewards of ownership of these assets which are therefore accounted for as operating leases. The carrying amount of property, plant and equipment subject to these operating leases at 31 December 2009 was RMB223,353,917 (31 December 2008: RMB397,213,420; 31 March 2008: RMB Nil; 31 March 2007: RMB Nil).

Estimation uncertainty

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

Useful lives of property, plant and equipment

Loudong PRC's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the 2008 report of an independent Hong Kong professional valuer, Vigers Appraisal & Consulting Limited and historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated. The carrying amount of property, plant and equipment at 31 December 2009 was RMB1,634,956,245 (2008: RMB1,683,377,221).

Provision for impairment of trade and other receivables

Loudong PRC makes provision for trade and other receivables based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed. The carrying amounts of trade and bills receivables at 31 December 2009 were RMB162,786,689 (31 December 2008: RMB194,383,888; 31 March 2008: RMB214,131,562; 31 March 2007: RMB115,368,495).

4. REVENUE

Revenue, which is also Loudong PRC's turnover, represents the net sale of goods and electricity.

5. OTHER OPERATING INCOME

	For the year ended 31 December 2009	**For the nine-month period ended 31 December 2008**	**For the year ended 31 March 2008**	**For the year ended 31 March 2007**
	RMB	*RMB*	*RMB*	*RMB*
Collection of a trade receivable previously written off	70,456,991	–	–	–
Operating lease income	17,768,010	7,128,220	–	–
Bank interest income	6,039,395	2,367,819	2,598,381	3,102,445
Value Added Tax rebate	4,848,563	3,348,654	3,579,984	3,720,008
Gain on disposal of equity investment at fair value through income statement	2,188,761	837,142	–	–
Fair value gain on equity investment at fair value through income statement	–	–	576,958	1,820,681
Foreign exchange gain, net	23,000	4,610,000	13,695,904	1,435,980
Others	7,438,390	5,137,983	5,431,470	2,124,294
	108,763,110	23,429,818	25,882,697	12,203,408

6. OTHER OPERATING EXPENSES

	For the year ended 31 December 2009 RMB	For the nine-month period ended 31 December 2008 RMB	For the year ended 31 March 2008 RMB	For the year ended 31 March 2007 RMB
Cost of operating lease – Loudong PRC as lessor	17,768,010	7,128,220	–	–
Bank charges	3,325,491	4,393,561	1,660,282	972,798
Tax penalty for delay of payment	1,361,553	656,629	7,474,500	2,256,443
Donation	1,204,066	2,700,000	2,052,000	322,500
Fair value loss on equity investment at fair value through profit and loss	–	3,759,391	–	–
Loss/(gain) on disposal of assets	33,160	1,044,916	(18,342)	545,610
Others	272,331	560,866	602,390	1,057,079
	23,964,611	20,243,583	11,770,830	5,154,430

7. FINANCE COSTS

	For the year ended 31 December 2009 RMB	For the nine-month period ended 31 December 2008 RMB	For the year ended 31 March 2008 RMB	For the year ended 31 March 2007 RMB
Interest on borrowings wholly repayable within five years:				
Bank loans	23,068,353	19,896,400	32,733,342	29,519,842
Financial cost arisen from bill receivable discount	6,635,585	12,815,648	14,837,496	7,459,943
Loans from non-financial institutions	5,444,282	603,097	11,872,672	18,645,921
	35,148,220	33,315,145	59,443,510	55,625,706
Less: Capitalized interest	(20,300,000)	(13,312,000)	(24,486,000)	(7,200,000)
	14,848,220	20,003,145	34,957,510	48,425,706

8. PROFIT BEFORE TAX

Loudong PRC's profit before tax is arrived at after charging/(crediting):

		For the year ended 31 December 2009	For the nine-month period ended 31 December 2008	For the year ended 31 March 2008	For the year ended 31 March 2007
		RMB	*RMB*	*RMB*	*RMB*
Cost of inventories sold		662,924,303	704,919,285	1,093,433,289	782,619,044
Depreciation of property, plant and equipment		77,488,989	74,755,225	99,373,227	88,971,798
Amortisation of prepaid land premium		798,173	598,629	798,174	798,172
Employee benefits expense – Wages and salaries		20,607,126	21,132,366	22,101,828	17,794,826
(Reversal)/provision for inventories		(15,969,513)	15,969,513	–	–
(Reversal)/provision of bad debt on trade receivables	*18*	(33,633,125)	16,965,977	39,898,189	(3,250,984)
Collection of a trade receivable previously written off	*5*	(70,456,991)	–	–	–
Loss/(gain) on disposal of property, plant and equipment, net		33,160	1,044,916	(18,342)	545,610
Finance costs		14,848,220	20,003,145	34,957,510	48,425,706
Gain on disposal of the equity investment at fair value through income statement		(2,188,761)	(837,142)	–	–

9. INCOME TAX EXPENSE

Pursuant to the Income Tax Law of the PRC Loudong PRC's taxable income is subject to a statutory income tax rate of 25%. As approved by the tax authorities, Loudong PRC was entitled to a tax holiday whereby it was exempted from corporate income tax for its first two profits making years (after deducting losses incurred in previous years) and a 50% tax reduction for the succeeding three years. The year ended 31 December 2008 was the fifth year of this tax holiday.

The major components of income tax expense for the year/period are:

	For the year ended 31 December 2009	For the nine-month period ended 31 December 2008	For the year ended 31 March 2008	For the year ended 31 March 2007
	RMB	*RMB*	*RMB*	*RMB*
Current income tax charge	105,645,173	31,363,717	61,351,127	53,628,214
Deferred tax *(Note 16)*	18,300,254	(4,539,419)	(10,699,236)	(2,137,748)
Income tax expense reported in the income statement	123,945,427	26,824,298	50,651,891	51,490,466

A reconciliation of the tax expense applicable to profit before income tax using the statutory rate in Mainland China to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate are as follows:

		For the year ended 31 December 2009		For the nine-month period ended 31 December 2008		For the year ended 31 March 2008		For the year ended 31 March 2007
	%	*RMB*	%	*RMB*	%	*RMB*	%	*RMB*
Accounting profit before income tax		387,579,045		211,302,540		292,941,891		236,545,819
Tax at the statutory tax rate	25.00	96,894,761	25.00	52,825,634	33.00	96,670,824	33.00	78,060,120
Effect of preferential tax rate entitlement in the PRC	–	–	(12.50)	(26,412,817)	(22.50)	(65,917,904)	(25.41)	(60,105,680)
Expenses not deductible for tax	6.98	27,050,666	0.20	411,481	8.25	24,178,667	13.40	31,722,049
Effect of change in income tax rate	–	–	–	–	(1.46)	(4,279,696)	0.77	1,813,977
Tax charge at the effective rate	31.98	123,945,427	12.70	26,824,298	17.29	50,651,891	21.76	51,490,466

According to an agreement reached between Loudong PRC and its local tax bureau, Loudong PRC is granted a grace period to settle the outstanding corporate income tax payable brought forward from previous years with total amount of RMB78,459,235 no later than the end of year 2011. Loudong PRC is also granted a grace period to settle RMB11,824,781 of outstanding value-added tax payable brought forward from previous years no later than the end of year 2011. Both non-current balances are recorded as other long-term payables, while the current portion of value-added tax payable is recorded as other payable.

10. PROPERTY, PLANT AND EQUIPMENT

	Office building	Coking plant facility	Office equipment	Machinery	Vehicles	Trans-portation pipe	Electricity transfer system	Meter	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost:									
At 1 January 2009									
Cost	26,477,007	781,692,459	30,900,750	952,243,236	22,300,739	140,439,844	109,620,578	39,949,615	2,103,624,228
Additions	–	–	117,642	13,696,588	2,979,193	–	1,500,000	–	18,293,423
Transferred from CIP	–	–	–	175,715,826	–	–	–	–	175,715,826
Disposals	–	–	–	(164,899,076)	(77,714)	–	–	–	(164,976,790)
At 31 December 2009	26,477,007	781,692,459	31,018,392	976,756,574	25,202,218	140,439,844	111,120,578	39,949,615	2,132,656,687
Depreciation:									
At 1 January 2009									
Accumulated depreciation	(1,907,574)	(79,034,317)	(3,521,698)	(227,011,648)	(13,384,080)	(43,602,562)	(39,401,139)	(12,383,989)	(420,247,007)
Additions	(1,292,172)	(22,952,911)	(2,946,130)	(35,128,584)	(2,118,739)	(6,319,794)	(4,932,926)	(1,797,733)	(77,488,989)
Disposals	–	–	–	–	35,554	–	–	–	35,554
At 31 December 2009	(3,199,746)	(101,987,228)	(6,467,828)	(262,140,232)	(15,467,265)	(49,922,356)	(44,334,065)	(14,181,722)	(497,700,442)
Net book value:									
At 31 December 2009	23,277,261	679,705,231	24,550,564	714,616,342	9,734,953	90,517,488	66,786,513	25,767,893	1,634,956,245
At 31 December 2008	24,569,433	702,658,142	27,379,052	725,231,588	8,916,659	96,837,282	70,219,439	27,565,626	1,683,377,221

As at 31 December 2009, property, plant and equipment with total cost of RMB240,817,385 have been leased to certain coal mining companies on operating lease terms.

	Office building RMB	Coking plant facility RMB	Office equipment RMB	Machinery RMB	Vehicles RMB	Trans-portation pipe RMB	Electricity transfer system RMB	Meter RMB	Total RMB
Cost:									
At 1 April 2008									
Cost	26,335,076	776,135,355	30,834,929	779,797,278	16,638,977	140,426,185	109,620,578	39,949,615	1,919,737,993
Additions	141,931	3,638,927	65,821	9,710,882	5,661,762	13,659	–	–	19,232,982
Transferred from CIP	–	1,918,177	–	164,899,076	–	–	–	–	166,817,253
Disposals	–	–	–	(2,164,000)	–	–	–	–	(2,164,000)
At 31 December 2008	26,477,007	781,692,459	30,900,750	952,243,236	22,300,739	140,439,844	109,620,578	39,949,615	2,103,624,228
Depreciation:									
At 1 April 2008									
Accumulated depreciation	(1,153,265)	(61,726,120)	(1,419,552)	(188,929,390)	(11,826,983)	(36,663,687)	(34,091,750)	(10,407,390)	(346,218,137)
Additions	(754,309)	(17,308,197)	(2,102,146)	(38,808,613)	(1,557,097)	(6,938,875)	(5,309,389)	(1,976,599)	(74,755,225)
Disposals	–	–	–	726,355	–	–	–	–	726,355
At 31 March 2008	(1,907,574)	(79,034,317)	(3,521,698)	(227,011,648)	(13,384,080)	(43,602,562)	(39,401,139)	(12,383,989)	(420,247,007)
Net book value:									
At 31 December 2008	24,569,433	702,658,142	27,379,052	725,231,588	8,916,659	96,837,282	70,219,439	27,565,626	1,683,377,221
At 31 March 2008	25,181,811	714,409,235	29,415,377	590,867,888	4,811,994	103,762,498	75,528,828	29,542,225	1,573,519,856

As at 31 December 2008, property, plant and equipment with total cost of RMB405,716,461 have been leased to certain coal mining companies on operating lease terms.

	Office building	Coking plant facility	Office equipment	Machinery	Vehicles	Trans-portation pipe	Electricity transfer system	Meter	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost:									
At 1 April 2007									
Cost	9,597,772	531,016,262	2,474,695	515,844,265	15,725,894	111,737,446	109,620,578	29,103,222	1,325,120,134
Additions	16,737,304	166,676,016	711,028	62,365,014	1,043,083	–	–	–	247,532,445
Transferred from CIP	–	78,443,077	27,649,206	201,587,999	–	28,688,739	–	10,846,393	347,215,414
Disposals	–	–	–	–	(130,000)	–	–	–	(130,000)
At 31 March 2008	26,335,076	776,135,355	30,834,929	779,797,278	16,638,977	140,426,185	109,620,578	39,949,615	1,919,737,993
Depreciation:									
At 1 April 2007									
Accumulated depreciation	(697,959)	(42,773,499)	(526,323)	(136,224,346)	(8,897,266)	(25,961,821)	(24,225,898)	(7,544,056)	(246,851,168)
Additions	(455,306)	(18,952,621)	(893,229)	(52,705,044)	(2,935,975)	(10,701,866)	(9,865,852)	(2,863,334)	(99,373,227)
Disposals	–	–	–	–	6,258	–	–	–	6,258
At 31 March 2008	(1,153,265)	(61,726,120)	(1,419,552)	(188,929,390)	(11,826,983)	(36,663,687)	(34,091,750)	(10,407,390)	(346,218,137)
Net book value:									
At 31 March 2008	25,181,811	714,409,235	29,415,377	590,867,888	4,811,994	103,762,498	75,528,828	29,542,225	1,573,519,856
At 31 March 2007	8,899,813	488,242,763	1,948,372	379,619,919	6,828,628	85,775,625	85,394,680	21,559,166	1,078,268,966

As at 31 March 2008, property, plant and equipment with total cost of RMB240,817,385 have been leased to certain coal mining companies on operation lease terms.

	Office building	Coking plant facility	Office equipment	Machinery	Vehicles	Trans-portation pipe	Electricity transfer system	Meter	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost:									
At 31 March 2006									
Cost	9,597,772	523,043,060	1,519,027	512,484,522	15,970,751	111,704,846	109,123,922	29,103,222	1,312,547,122
Additions	–	5,359,623	955,668	4,523,212	2,734,420	32,600	496,656	–	14,102,179
Transferred from CIP	–	2,613,579	–	–	–	–	–	–	2,613,579
Disposals	–	–	–	(1,163,469)	(2,979,277)	–	–	–	(4,142,746)
At 31 March 2007	9,597,772	531,016,262	2,474,695	515,844,265	15,725,894	111,737,446	109,620,578	29,103,222	1,325,120,134
Depreciation and impairment:									
At 31 March 2006									
Accumulated depreciation	(410,026)	(26,984,337)	(369,534)	(89,991,444)	(5,933,431)	(15,906,873)	(14,391,095)	(4,924,766)	(158,911,506)
Additions	(287,933)	(15,789,162)	(156,789)	(46,493,768)	(3,735,105)	(10,054,948)	(9,834,803)	(21,619,290)	(88,971,798)
Disposals	–	–	–	260,866	771,270	–	–	–	1,032,136
At 31 March 2007	(697,959)	(42,773,499)	(526,323)	(136,224,346)	(8,897,266)	(25,961,821)	(24,225,898)	(7,544,056)	(246,851,168)
Net book value:									
At 31 March 2007	8,899,813	488,242,763	1,948,372	379,619,919	6,828,628	85,775,625	85,394,680	21,559,166	1,078,268,966
At 31 March 2006	9,187,746	496,058,723	1,149,493	422,493,078	10,037,320	95,797,973	94,732,827	24,178,456	1,153,635,616

11. CONSTRUCTION IN PROGRESS

	31 December 2009	31 December 2008	31 March 2008	31 March 2007
	RMB	*RMB*	*RMB*	*RMB*
At the beginning of year/period	353,020,928	460,710,523	585,903,790	507,266,439
Additions	29,813,244	59,127,658	222,022,147	81,250,930
Transferred to property, plant and equipment *(Note 10)*	(175,715,826)	(166,817,253)	(347,215,414)	(2,613,579)
At the end of year/period	207,118,346	353,020,928	460,710,523	585,903,790

12. PREPAID LAND PREMIUMS

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
At the beginning of year/period	33,311,039	33,909,668	34,707,842	35,506,014
Amortisation for the year/period	(798,173)	(598,629)	(798,174)	(798,172)
At the end of year/period	32,512,866	33,311,039	33,909,668	34,707,842

13. INVESTMENT IN AN ASSOCIATE

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Share of the associate's statement of financial position:				
Assets	3,520,835	9,019,121	6,932,040	5,948,772
Liabilities	(1,620,835)	(7,119,121)	(5,032,040)	(4,048,772)
Goodwill on acquisition	3,200,000	3,200,000	3,200,000	3,200,000
Net assets	5,100,000	5,100,000	5,100,000	5,100,000
Share of the associate's revenue and profit:				
Revenue	1,765,645	3,167,379	953,676	484,497
Net profit	141,629	569,505	442,986	31,252
Carrying amount of the investment	5,100,000	5,100,000	5,100,000	5,100,000

Particulars of the principal associate are as follows:

Name	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Nan Tie Lou Jun Coke Transportation Co., Ltd. ("Nan Tie") *	Shanxi Province, the PRC	19%	provision of loading, storage and transportation service for coke, washed coals and raw coals

* *Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.*

Loudong PRC's trade payable balance with the associate is disclosed in note 29 to the financial statements.

14. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Unlisted equity investments, at cost	5,000,000	4,800,000	–	–

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

As at 31 December 2009, the unlisted equity investments with a carrying amount of RMB5,000,000 (31 December 2008: RMB4,800,000; 31 March 2008: Nil; 31 March 2007: Nil) were stated at cost because the range of reasonable fair value estimates cannot be measured reliably. Loudong PRC does not intend to dispose them in the near future.

15. OTHER LONG-TERM ASSETS

During the year ended 31 December 2009, Loudong PRC placed deposits amounting to RMB176,100,000 to acquire a 49% equity interest in Shanxi Linxian Taiye Coal Mining Company Limited ("Taiye"), a coal mining company. Following further negotiations, subsequent to year end, Loudong PRC entered into an agreement to acquire a 30% equity interest in Taiye for RMB700 million, subject to certain conditions. As at the date of approval of these financial statements, the acquisition has not been completed.

16. DEFERRED TAX ASSETS

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
At the beginning of year/period	35,726,303	31,186,884	20,487,648	18,349,900
Deferred tax (debited)/credited to the income statement during the year/period *(Note 9)*	(18,300,254)	4,539,419	10,699,236	2,137,748
At the end of year/period	17,426,049	35,726,303	31,186,884	20,487,648

Deferred income tax as at the date of balance sheets relates to the following:

	Assets (Debit)				Liability (Credit)				Net Value			
	31 December 2009	31 December 2008	31 March 2008	31 March 2007	31 December 2009	31 December 2008	31 March 2008	31 March 2007	31 December 2009	31 December 2008	31 March 2008	31 March 2007
Bad debts provision	5,999,697	14,407,978	10,166,484	191,936	–	–	–	–	5,999,697	14,407,978	10,166,484	191,936
Inventory provision	–	3,992,378	–	–	–	–	–	–	–	3,992,378	–	–
Amortisation of prepaid land premium	–	–	–	–	(2,006,622)	(1,790,061)	(1,627,640)	(1,411,080)	(2,006,622)	(1,790,061)	(1,627,640)	(1,411,080)
Capitalised interest	–	–	–	–	(14,176,729)	(9,246,125)	–	–	(14,176,729)	(9,246,125)	–	–
Depreciation of property, plant and equipment	27,609,703	28,362,133	22,648,040	21,706,792	–	–	–	–	27,609,703	28,362,133	22,648,040	21,706,792
Deferred tax assets/ (liabilities)	33,609,400	46,762,489	32,814,524	21,898,728	(16,183,351)	(11,036,186)	(1,627,640)	(1,411,080)	17,426,049	35,726,303	31,186,884	20,487,648

17. INVENTORIES

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Raw materials	87,519,372	45,924,142	47,979,755	15,828,460
Work in progress	14,115,846	45,137,718	2,945,334	6,037,697
Finished goods	53,756,515	149,962,518	58,958,997	67,121,475
Spare parts and consumables	631,116	977,028	448,013	1,585,234
	156,022,849	242,001,406	110,332,099	90,572,866
Less: Provision for cost exceeding realisable value	–	(15,969,513)	–	–
Total inventories at the lower of cost and net realisable value	156,022,849	226,031,893	110,332,099	90,572,866

Movements in provision for inventories during the year/period were as follows:

	Work in progress *RMB*	Finished goods *RMB*	Total *RMB*
As at 1 April 2006	–	–	–
Charge for the year	–	–	–
At the end of 31 March 2007	–	–	–
Charge for the year	–	–	–
At the end of 31 March 2008	–	–	–
Charge for the period	5,185,057	10,784,456	15,969,513
At the end of 31 December 2008	5,185,057	10,784,456	15,969,513
Charge for the year	(5,185,057)	(10,784,456)	(15,969,513)
At the end of 31 December 2009	–	–	–

18. TRADE AND BILLS RECEIVABLES, NET

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Trade receivables	121,563,963	228,726,426	223,597,496	111,086,240
Bills receivables	65,221,512	23,289,373	31,200,000	5,050,000
Less: Provision for doubtful debts	(23,998,786)	(57,631,911)	(40,665,934)	(767,745)
	162,786,689	194,383,888	214,131,562	115,368,495

Movements in provision for doubtful debts during the year/period were as follows:

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
At the beginning of year/period	57,631,911	40,665,934	767,745	438,729
Charge for the year/period	3,998,040	36,989,281	40,000,000	329,016
Reversal for the year/period	(37,631,165)	(20,023,304)	(101,811)	–
At the end of year/period	23,998,786	57,631,911	40,665,934	767,745

An aging analysis of the trade receivables as at the date of balance sheets, based on the invoice date, is as follows:

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Within 1 year	86,344,668	194,937,999	214,497,148	105,409,832
1 to 2 years	27,291,795	26,680,645	156,454	5,676,408
Over 2 years	7,927,500	7,107,782	8,943,894	–
	121,563,963	228,726,426	223,597,496	111,086,240

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Advance to suppliers	463,222,559	277,247,341	314,552,137	206,419,823
Other receivables	57,640,126	17,505,475	43,145,427	3,912,454
	520,862,685	294,752,816	357,697,564	210,332,337

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Listed investment funds, at fair value	500,000	6,238,077	10,997,468	3,920,510

The above equity investments were classified as held for trading.

21. CASH AND CASH EQUIVALENTS

	31 December 2009 RMB	31 December 2008 RMB	31 March 2008 RMB	31 March 2007 RMB
Cash and bank balances	156,464,094	267,478,211	104,357,873	97,149,814
Less: time deposits pledged as security	(118,786,764)	(259,786,370)	(76,734,462)	(94,107,033)
Cash and cash equivalents	37,677,330	7,691,841	27,623,411	3,042,781

The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Loudong PRC is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

22. TRADE AND BILLS PAYABLES

	31 December 2009 RMB	31 December 2008 RMB	31 March 2008 RMB	31 March 2007 RMB
Trade payables	81,691,073	77,705,661	153,063,968	205,029,194
Bills payables	135,700,000	359,400,000	72,100,000	96,600,000
	217,391,073	437,105,661	225,163,968	301,629,194

Trade payables are non-interest-bearing and are normally settled on 90-day terms. Bills payables are non-interest-bearing and have maturity dates of 30 to 90 days and are secured by pledged deposit of RMB118,786,764 (31 December 2008: RMB259,786,370; 31 March 2008: RMB76,734,462; 31 March 2007: RMB94,107,033).

23. OTHER PAYABLES AND ACCRUALS

	31 December 2009 RMB	31 December 2008 RMB	31 March 2008 RMB	31 March 2007 RMB
Customer advances	25,633,235	49,598,161	172,686,355	25,164,036
Value-added tax payable	65,549,969	131,374,139	97,665,530	81,190,655
Other payables	95,389,133	67,356,835	57,251,342	47,874,582
Accruals	7,242,349	12,480,552	11,718,619	9,117,894
	193,814,686	260,809,687	339,321,846	163,347,167
Reclassified to non-current other payables	(11,824,781)	(11,824,781)	–	–
	181,989,905	248,984,906	339,321,846	163,347,167

According to an agreement reached between Loudong PRC and its local tax bureau, Loudong PRC is granted a grace period to settle the outstanding corporate income tax payable brought forward from previous years with total amount of RMB78,459,235 no later than the end of year 2011. Moreover, Loudong PRC is also granted a grace period to settle RMB11,824,781 of outstanding value-added tax payable brought forward from previous years no later than the end of year 2011. Both non-current balances have been recorded as other long-term payables, while the current portion of value-added tax payable is recorded as other payable.

Other payables are non-interest-bearing and are settled upon demand.

24. INTEREST-BEARING BANK BORROWINGS AND OTHER BORROWINGS

	31 December 2009			31 December 2008			31 March 2008			31 March 2007		
	Effective interest rate *(%)*	Maturity	*RMB*	Effective interest rate *(%)*	Maturity	*RMB*	Effective interest rate *(%)*	Maturity	*RMB*	Effective interest rate *(%)*	Maturity	*RMB*
Current												
Bank loans – secured	5.832% ~ 10.1775%	2010	193,000,000	5.544% ~ 17.181%	2009	269,900,000	5.913% ~ 15.111%	2008	304,000,000	6.048% ~ 10.87%	2007	327,340,000
			193,000,000			269,900,000			304,000,000			327,340,000
Non-current												
Loan from non-financial institutions – unsecured	0% ~ 28 %	on demand	11,980,000	0% ~ 28%	on demand	21,520,000	5% ~ 38%	on demand	21,520,000	5% ~ 38%	on demand	31,520,000
Total bank and other borrowings			204,980,000			291,420,000			325,520,000			358,860,000

Notes:

All borrowings are denominated in RMB and bear interest at fixed rates.

The carrying amounts of Loudong PRC's borrowings approximate to their fair value.

Loans from non-financial institutions are unsecured and bear interest at an annual fixed rate of 0% to 28% (31 December 2008: 0%~28%; 31 March 2008 and 31 March 2007: 5%~38%).

The non-current loans from non-financial institutions represent funds received from various parties for working capital purposes, and are not repayable within the next 12 months. There is no fixed term of repayment.

25. PAID-UP CAPITAL

Registered and paid-up capital:

	31 December 2009		31 December 2008		31 March 2008		31 March 2007	
	%	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*
Abterra	50.10	123,246,000	50.10	123,246,000	50.10	123,246,000	–	–
General Nice Development Limited	–	–	–	–	–	–	50.10	123,246,000
General Nice-Londong Coal & Coke Limited ("GNLCC")	39.90	98,154,000	–	–	–	–	–	–
Xiaoyi	–	–	39.90	98,154,000	39.90	98,154,000	39.90	98,154,000
Da Jin	10.00	24,600,000	10.00	24,600,000	10.00	24,600,000	10.00	24,600,000
	100.00	246,000,000	100.00	246,000,000	100.00	246,000,000	100.00	246,000,000

A Certified Public Accountant of The People's Republic of China has verified the above capital contributions and issued the capital verification report.

Prior to 4 September 2008, Abterra was a subsidiary of General Nice Resources (Hong Kong) Limited ("GNR"). On that date, GNR disposed of its interest in Abterra to Buddies Power Enterprises Ltd, a wholly-owned subsidiary of Loudong General Nice Resources (China) Holdings Limited (formerly known as "The Sun's Group Limited"). Hence, at 31 December 2009, the ultimate holding company is Loudong General Nice Resources (China) Holdings Limited.

On 4 November 2009, Xiaoyi transferred its entire share holding in Loudong PRC to the Target.

26. RESERVES

Statutory surplus reserve ("SSR")

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

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

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

Pursuant to Loudong PRC's Articles of Associations, Loudong PRC appropriated to the SSR 10% of the net profit in 2007 and 2008 and RMB10,527,898 in 2009 as the balance of the SSR had reached 50% of the registered capital.

27. NOTES TO THE STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year ended 31 December 2009, Loudong PRC entered into a property, plant and equipment disposal agreements in respect of certain machinery with a total consideration of RMB164,899,076, which was satisfied by (i) transfer of payable totalling RMB85,485,758; and (ii) future in-kind supplies of coal with a fair value of RMB79,413,318.

28. OPERATING LEASE ARRANGEMENTS

As lessor

Loudong PRC leases certain property, plant and machinery to mining companies, which supply coal to Loudong PRC. At 31 December, Loudong PRC had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	31 December 2009	31 December 2008	31 March 2008
	RMB	*RMB*	*RMB*
Within 1 year	17,768,010	8,960,426	–
In the 2nd to 5th years, inclusive	71,072,042	35,841,705	–
After 5 years	110,432,127	163,430,474	–
	199,272,179	208,232,605	–

29. RELATED PARTY TRANSACTIONS

(a) Transaction with related parties

In addition to the transactions disclosed elsewhere in these financial statements, Loudong PRC had the following material transactions with related parties during the year:

	Notes	For the year ended 31 December 2009	For the nine-month period ended 31 December 2008	For the year ended 31 March 2008	For the year ended 31 March 2007
		RMB	*RMB*	*RMB*	*RMB*
Sales of goods to related parties	*(i)*	–	162,218,735	458,789,887	80,955,780
Loan from a related party	*(ii)*	68,122,000	99,203,310	188,043,500	–
Repayment of loan from a related party	*(ii)*	170,552,368	99,203,310	–	–
Transportation fees paid to a related party	*(iii)*	12,029,726	16,081,568	70,204,153	93,673,857
Sales of goods to a shareholder	*(iv)*	–	–	2,257,191	177,635,348
Loans from shareholders	*(v)*	1,070,639,062	150,660,039	–	–
Repayment of loans from shareholders	*(v)*	990,290,874	–	–	–

(i) The sales to GNT, an associate of GNR and also a related party of the Group, were made according to the published prices and conditions similar to those offered to the major customers of the Group. Details of the agreements regarding this transaction are listed in (b)(ii) below.

(ii) The loan borrowed from General Nice Development Limited ("GND") during the year ended 31 December 2009 and period ended 31 December 2008, a related party of the Group, was unsecured, interest-free and is repayable after 1 September 2011.

(iii) The transportation fees paid were according to the published prices and conditions offered by the related company to their major customers.

(iv) The sales to a shareholder were made according to the published prices and conditions similar to those offered to the major customers of Loudong PRC.

(v) The loans borrowed from shareholders of Loudong PRC were unsecured, interest-free and will not fall due within one year.

(b) Agreements with related parties

(i) On 31 January 2007, Loudong PRC reached an agreement with GNR that Loudong PRC would provide tolling service for GNR by converting coal provided by GNR into coke. The contract was valid between 1 March 2007 and 28 February 2009. During the period, Loudong PRC was obliged to toll no less than 162,000 and 180,000 metric tons of coke to GNR for the first and second contractual years respectively, if GNR so required. The tolling service prices were set at USD8 per metric ton. The agreement has expired and has not been exercised in 2009 (2008: nil).

(ii) According to an agreement between Loudong PRC and GNT dated 18 July 2007 and a side agreement between the two parties dated 7 May 2008, Loudong PRC would supply Chinese low ash metallurgical coke to GNR through GNT based on quoted prices in the open market. The contracts are valid between 31 July 2007 and 31 July 2009. During the contract period, Loudong PRC was obliged to provide to GNT the coke with total sales value of at least US$62,500,004. The agreement expired and was not been exercised in 2009 (2008: Loudong PRC sold coke of approximately RMB162,218,735 to GNT).

(c) Balance with related parties

The balances with a shareholder and related parties are unsecured, interest-free and have no fixed terms of repayment except for the non-current balances which the related parties have agreed not to ask for repayment before 1 September 2011. These balances represented cash advances to or from those related parties and were non-trade in nature. The carrying amounts of these balances approximated to their fair values as at the balance sheet date.

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

Outstanding balances with related parties:

(i) Current portion

	31 December 2009	31 December 2008	31 March 2008	31 March 2007
	RMB	*RMB*	*RMB*	*RMB*
Due from a shareholder				
Da Jin	–	–	20,847,170	–

	31 December 2009	31 December 2008	31 March 2008	31 March 2007
	RMB	*RMB*	*RMB*	*RMB*
Due from related parties				
Shanxi Nan Tie Lou Jun Coke Transportation Co., Ltd ("Nan Tie")	326,257	261,875	–	–
Shanxi Minmetals Industrial & Trading Co., Ltd*	4,172,535	4,172,535	1,757,351	–
	4,498,792	4,434,410	1,757,351	–

* *Shanxi Minmetals Industrial & Trading Co., Ltd is a subsidiary of Shanxi Da Jin International (Group) Corporation, a shareholder of Loudong PRC.*

	31 December 2009	31 December 2008	31 March 2008	31 March 2007
	RMB	*RMB*	*RMB*	*RMB*
Due to shareholders				
Xiao Yi	–	–	–	203,291,077
Da Jin	–	–	–	27,613,892
General Nice Development Limited	–	–	–	146,241,725
	–	–	–	377,146,694

	31 December 2009	31 December 2008	31 March 2008	31 March 2007
	RMB	*RMB*	*RMB*	*RMB*
Due to a related party				
Nan Tie	5,290,889	7,446,004	20,295,390	21,024,175

(ii) Non-current portion

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Due to shareholders				
Loudong General Nice Resources (China) Holding ("LDGNR")	88,050,000	–	–	–
Abterra	87,813,204	–	–	–
Xiao Yi	126,948,609	207,463,625	248,438,853	–
Da Jin	–	15,000,000	40,000,000	–
	302,811,813	222,463,625	288,438,853	–

	31 December 2009 *RMB*	31 December 2008 *RMB*	31 March 2008 *RMB*	31 March 2007 *RMB*
Due to related parties				
GND	238,987,000	170,865,000	175,475,000	–
GNT	95,682,397	266,234,765	311,794,228	–
GNR	731,920	731,920	2,802,568	–
	335,401,317	437,831,685	490,071,796	–

Balances due to GND and GNR are unsecured and interest-free loans of USD35,000,000 (31 December 2008 and 31 March 2008: USD25,000,000; 31 March 2007: nil) and USD100,000 (31 December 2008: USD100,000; 31 March 2008 and 2007: nil) respectively. Both loans as at 31 December 2009 are not due for repayment before 1 September 2011.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Loudong PRC's principal financial instruments comprise bank loans, loans from non-financial institutions, advances from related parties and shareholders and cash and short term deposits. The main purpose of these financial instruments is to raise finance for Loudong PRC's operations. Loudong PRC has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from the operations.

The main risks arising from Loudong PRC's financial instruments are interest rate, liquidity and credit risks. The policies for managing each of these risks are summarized below.

Credit risk

Credit risk or the risk of counterparties defaulting is managed through the application of credit approvals, and monitoring procedures. Loudong PRC minimizes its exposure to credit risk by only dealing with counterparties with acceptable credit rating.

The major concentrations of credit risk arise from exposure to a substantial number of accounts mainly operating in one geographical region, the PRC and one industry, steel making. Senior management of Loudong PRC personally monitor the balance of those companies, and consistently communicate with the directors of those companies to understand any recoverability issues.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of Loudong PRC's short, medium and long term funding and liquidity management requirements. Loudong PRC manages liquidity risk by maintaining adequate cash and borrowing facility reserves. In addition, the management continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities. The maturity profile of Loudong PRC's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2009				
	Within 1 year or On demand	**1-2 years**	**3-5 years**	**Over 5 years**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Interest-bearing bank and other borrowings	193,000,000	–	–	–	193,000,000
Amounts due to related companies	5,290,889	–	–	–	5,290,889
Amount due to a shareholder	–	302,811,813	–	–	302,811,813
Loan from non-financial Institutions	–	11,980,000	–	–	11,980,000
Trade and bills payables	217,391,073	–	–	–	217,391,073
Loan from related parties	–	335,401,317	–	–	335,401,317
Financial liabilities included In other payables and accruals	149,114,321	11,824,781	–	–	160,939,102
Tax payable	241,542,383	78,459,235	–	–	320,001,618

Liquidity risk

	2008				
	Within 1 year or On demand	**1-2 years**	**3-5 years**	**Over 5 years**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Interest-bearing bank and other borrowings	269,900,000	–	–	–	269,900,000
Amounts due to related companies	7,446,004	–	–	–	7,446,004
Amount due to a shareholder	–	223,463,625	–	–	223,463,625
Loan from non-financial Institutions	–	21,520,000	–	–	21,520,000
Trade and bills payables	437,105,661	–	–	–	437,105,661
Loan from related parties	7,446,004	437,831,685	–	–	445,277,689
Financial liabilities included In other payables and accruals	186,906,193	11,824,781	–	–	198,730,974
Tax payable	137,095,288	78,459,235	–	–	215,554,523

	31 March 2008				
	Within 1 year or On demand	**1-2 years**	**3-5 years**	**Over 5 years**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Interest-bearing bank and other borrowings	304,000,000	–	–	–	304,000,000
Amounts due to related companies	20,295,390	–	–	–	20,295,390
Amount due to shareholders	–	288,438,853	–	–	288,438,853
Loans from non-financial Institutions	–	21,520,000	–	–	21,520,000
Trade and bills payables	225,163,968	–	–	–	225,163,968
Loans from related parties	–	490,071,796	–	–	490,071,796
Financial liabilities included in other payables and accruals	154,916,872	–	–	–	154,916,872
Tax payable	184,190,806	–	–	–	184,190,806

	31 March 2007				
	Within 1 year or On demand	**1-2 years**	**3-5 years**	**Over 5 years**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Interest-bearing bank and other borrowings	327,340,000	–	–	–	327,340,000
Amounts due to related companies	21,024,175	–	–	–	21,024,175
Loans from non-financial Institutions	–	21,520,000	–	–	21,520,000
Trade and bills payables	301,629,194	–	–	–	301,629,194
Loans from related parties	–	–	–	–	–
Financial liabilities included in other payables and accruals	129,065,237	–	–	–	129,065,237
Tax payable	122,839,679	–	–	–	122,839,679

Interest rate risk

Loudong PRC's exposure to the risk of changes in market interest rates related primarily to Loudong PRC's cash and cash equivalents (Note 21). Loudong PRC places the cash with reputable banks. Loudong PRC manages its interest rate risks relating to its interest income by placing the cash balances with varying maturity and interest rate terms. Apart from that, it manages its interest rate risk relating to borrowings by closely monitoring interest rate movements and People's Bank of China interest rate policy and renewing the terms of borrowings annually. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of Loudong PRC's profit before tax (through the impact on floating rate borrowings) and Loudong PRC's equity.

	Increase/decrease in basis points	Effect on profit before tax *RMB'000*	Effect on equity *RMB'000*
31 December 2009	+100	1,565	1,174
	-100	(1,565)	(1,174)
31 December 2008	+100	2,675	2,006
	-100	(2,675)	(2,006)
31 March 2008	+100	1,044	699
	-100	(1,044)	(699)
31 March 2007	+100	971	651
	-100	(971)	(651)

Foreign currency risk

Loudong PRC also has transactional currency exposures. Such exposure arises from sales in currencies other than its functional currency. Approximately 0% (2008: 16%) of Loudong PRC's sales are denominated in currencies other than the functional currency, whilst almost all costs are denominated in its functional currency. Loudong PRC does not use any derivative to minimize the foreign exchange exposure.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of Loudong PRC's profit before tax (due to changes in the fair value of monetary assets and liabilities) and Loudong PRC's equity.

Foreign currency risk

	Increase/decrease in US dollar rate	Effect on profit before tax *RMB'000*	Effect on equity *RMB'000*
31 December 2009	+5%	–	–
	-5%	–	–
31 December 2008	+5%	(8,547)	(7,478)
	-5%	8,547	7,478
31 March 2008	+5%	(6,561)	(5,577)
	-5%	6,561	5,577
31 March 2007	+5%	–	–
	-5%	–	–

Capital management

The primary objective of Loudong PRC's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

Loudong PRC manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, Loudong PRC may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the Relevant Periods.

Loudong PRC monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Loudong PRC's policy is to keep the gearing ratio between 20% and 40%. Loudong PRC includes within net debt, interest bearing loans and borrowings, non-current portion of loans from non-financial institutions, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent, amounts due to shareholders and amounts due to related companies.

	31 December 2009	**31 December 2008**	**31 March 2008**	**31 March 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	193,000	269,900	304,000	327,340
Due to related parties	335,401	437,831	490,072	–
Non-current loans from non-financial institutions	11,980	21,520	21,520	31,520
Less: Cash and cash equivalents	(37,677)	(7,692)	(27,623)	(3,042)
Net debt	502,704	721,559	787,969	355,818
Equity	1,499,657	1,236,024	1,051,545	809,255
Due to shareholders	302,812	222,464	288,439	–
Total capital	1,802,469	1,458,488	1,339,984	809,255
Capital and net debt	2,305,173	2,180,047	2,127,953	1,165,073
Gearing ratio	22%	33%	37%	31%

MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

1. FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL RESULTS

For the year ended 31 December 2009, Loudong General Nice Resources (China) Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") recorded revenue from continuing operations of approximately HK$1,224,798,000 (2008: approximately HK$506,833,000), representing an increase of around 142% from the previous year. The surge in revenue reflected the first full-year revenue contribution of the Group's coke manufacturing business operated by Shanxi Loudong-General Nice Coking and Gas Co., Ltd. ("Loudong PRC"), of which a 50.1% stake was acquired by the Group in September 2008.

The profit attributable to owners of the parent for 2009 was approximately HK$50,414,000 as compared with the loss attributable to owners of the parent of approximately HK$563,433,000 for the preceding year, which was mainly due to a one-off goodwill impairment arising from the acquisition of Loudong PRC. The profit turnaround for the year under review proved the significant contribution of the coke manufacturing business. Yet, the profit for 2009 was eroded by certain non-operating items and was arrived at after deducting non-cash expense of approximately HK$10,085,000 in connection with the grant of share options in the second half of 2009 and deemed interest expense of approximately HK$63,561,000 for the convertible notes issued for the acquisition of Loudong PRC. In addition, the profit was further abated by a higher taxation charged in 2009 as Loudong PRC was no longer entitled to tax holiday for the year under review.

BUSINESS REVIEW

2009 was a precarious year clouded by uncertainties in the aftermath of the global financial meltdown.

As Loudong PRC is principally engaged in the manufacture and sale of metallurgical coke which is a key ingredient for steel production, the Group was badly hit in the first half of the year when the global demand for steel remained in the doldrums and the capacity utilisation of many steel mills was shrinking. Accordingly, demand for metallurgical coke declined, inventories piled up and price for metallurgical coke fell to as low as about RMB1,450 per tonne in March 2009. As a consequence, Loudong PRC's sales tonnage of metallurgical coke fell by 46% in the first half of 2009 as compared with the corresponding period in 2008.

With the central government's proactive economic stimulus package filtering through, the economy in China recovered gradually and transformed into a key driver that spearheaded the mild recovery of the global economy in the second half of the year. The coal market continued to rebound while the market demand for coke gradually picked up.

Despite improved market in China in the second half of the year, Loudong PRC's full year sales of metallurgical coke still dropped by about 19% to 674,500 tonnes, as compared with that of 2008. The decrease was partly due to the poor market environment in the first half of the year and partly attributable to the drastic dive of export sales to zero during the year under review as compared to about 27% of the Group's revenue derived from export sales in 2008. The 40% duty levied on coke export by the central government since August 2008 remained a major hindrance leaving China's coke products less competitive in the international market.

The lingering effect of the financial tsunami, coupled with the coal mine consolidation program launched by the Shanxi provincial government in 2009, had badly hurt a lot of smaller, inefficient and environmentally unfriendly coking production facilities in China. The Group's coke manufacturing business managed to fare better largely attributable to its efficient operation and stable long-term coal supplies. As such, a reasonable level of gross margin of 36% was maintained in the year under review, as compared with 42% in 2008.

The debtor turnover period of the Group improved from 95 days in 2008 to 59 days in 2009, mainly due to reinstatement of normal credit terms from previous year's extended credit period granted to some of the Group's steelmaking and coke trading customers. The management of the Group adopts a prudent credit terms. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. If the balance due from debtors becomes doubtful, appropriate doubtful debt provision will be provided for.

OUTLOOK

On 18 November 2009, the Company announced its intention to further acquire a 39.9% equity interest of Loudong PRC. The directors of Company (the "Directors") expect that the proposed acquisition, upon completion, will further strengthen the business in coal processing and production of coke and coal-related chemicals in China. In longer term, the Directors believe that the Group has the competitive edge to benefit from the next stage of coking consolidation program which will eliminate weaker coking players in the market in the years ahead.

On 16 September 2009, the Group entered into a memorandum of understanding to acquire a 49% equity interest in Shanxi Linxian Taiye Coal Mining Company Limited ("Linxian Taiye"). Linxian Taiye owns a coking coal mine with a general mining area of approximately 6.5 square kilometers and estimated coal reserves of not less than 80,000,000 metric tonnes, subject to the assessment by valuers and technical advisors. The approved production capacity of the coal mine is 1,200,000 metric tonnes per year. Subject to satisfactory due diligence, the Directors expect that the possible acquisition of Linxian Taiye, if materialised, will mark as a major milestone for the Group to transform into a leading integrated coal and coke enterprise in China consisting of coal mining, coke manufacturing and related logistics operations. On 4 May 2010, the Group announced that, after further negotiations, the equity interests of Linxian Taiye to be acquired will revise to 30% for a total consideration of RMB700,000,000 (equivalent to HK$795,410,000).

On 4 May 2010, the Company entered into another memorandum of understanding to acquire 30% equity interest of Shanxi LvLiang Lishi Dan Tan Gou Mining Co., Ltd, which owns an estimated coal reserves of not less than 21,556,000 metric tonnes. The approved production capacity of the coal mine is 900,000 metric tonnes per year.

The board of Directors (the "Board") intends to complete the above acquisitions in 2010, which upon materialised, will substantially reduce the minority interests and increase the attributable profits from both coke manufacturing business and coal mining business.

Market outlook is promising in 2010, supported by about 40% increase in sales in the first two months of the year while resumption of export sales is positive given the latest trend of improved price and demand.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2009, the Group had total bank borrowings in the amount of HK$231,627,000 (as at 31 December 2008: HK$309,708,000), representing a decrease of HK$78,081,000. The maturity profile of the Group's bank borrowings of HK$231,627,000 was spread with HK$222,095,000 repayable within 1 year, HK$396,000 repayable in the second year, HK$1,270,000 repayable in the third to fifth year and HK$7,866,000 repayable beyond 5 years.

The Group's total bank borrowings of HK$231,627,000 were 95% denominated in Renminbi ("RMB") with fixed interest rate and 5% denominated in Hong Kong dollars ("HKD") with floating interest rate. The Group's cash and bank balances of HK$193,976,000 were 95% denominated in RMB and 5% in HKD.

TREASURY POLICY

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

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES

During the year under review, the Group completed the disposal of all equity interests in (i) New Fortune Development Limited, which held two adjoining 8-storey buildings in Hong Kong and (ii) Rolling Development Limited and New Point Management Limited, which were engaged in the investment and management of a hotel in Hong Kong (collectively, the "Disposals"). Subsequent to the acquisition of a 50.1% equity interest in Loudong PRC in 2008 and the Disposals, production and trading of coke, coal gas and chemical by-products and generation of electricity become the core businesses of the Group.

EMPLOYEES

As at 31 December 2009, the total number of employees of the Group was approximately 1,700 (2008:1,680). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. The Group also has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. As at 31 December 2009, there were 21,700,000 (2008: Nil) outstanding share options granted under such scheme.

CHARGE OF GROUP ASSETS

As at 31 December 2009, the Group pledged investment properties with a carrying value of approximately HK$11,199,000 (31 December 2008: HK$9,660,000) and a property with a carrying value of approximately HK$15,688,000 (31 December 2008: Nil) as securities for the Group's banking facilities.

GEARING RATIO

As at 31 December 2009, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 23% (31 December 2008: 36%). Net debt represents the aggregate amount of the Group's interest-bearing bank borrowings and long-term bank loan, non-current portion of loans from non-financial institutions and non-current portion of the loans due to related parties less cash and cash equivalents of the Group. Total capital includes equity attributable to the owners of the parent and convertible notes of the Company. As at Latest Practicable Date, all convertible notes of the Company were converted to share capital. Thus based on the intention of the Company, we treated the convertible notes as equity rather than debt for better comparison.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HDGES

The Group's reporting currency is denominated in HKD. The Group's monetary assets, loans and transactions were principally denominated in RMB and HKD. The Group was exposed to foreign currency risk arising from the exposure of HKD against RMB. Considering that the exchange rate between HKD and RMB is relatively stable, the Group believed that the corresponding exposure to RMB exchange rate fluctuation was insignificant. However, the Group had a net exchange exposure to RMB as the Group's assets were principally located in China and the revenues were in RMB.

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

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had discounted bills receivable amounting to HK$56,701,000 (2008: HK$53,748,000), which have not reached maturity.

2. FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL RESULTS

During the financial year under review, the Group recorded revenue from continuing operations of approximately HK$506,833,000, representing an increase of around 162 times, as compared with approximately HK$3,128,000 for 2007. The consolidated net loss attributable to shareholders for 2008 was approximately HK$563,433,000, largely due to a oneoff goodwill impairment arising from acquisition, as compared with net profit attributable to shareholders of approximately HK$2,740,000 for the preceding year. The increase in revenue for the year under review was contributed by revenue derived from the coke manufacturing business acquired during the year. The net loss was mainly attributable to the deemed interest of the convertible notes issued during the year and the impairment of goodwill following acquisition of the coke manufacturing business amounted to approximately HK$22,433,000 and HK$571,139,000 respectively. The deemed interest of the convertible note and the impairment of goodwill do not have any impact on the cash flows of the Group. The decision to determine the consideration and enter into the agreement for acquiring the coke manufacturing business was made in December 2007 when the global economy was booming. At the time of completion of the subject acquisition on 3 September 2008, the global economic climate has started to deteriorate and the independent valuer performed the valuation of the acquiree using 3 September 2008 as the base date. Therefore, there was a substantial difference between the consideration paid for the acquisition and the value of the acquiree as set out in the independent valuer's report, which is recorded as goodwill. At the year end, the Board of Directors of the Company has made reasonable estimation of the impairment considerations, and decided to write down a substantial portion of the goodwill accordingly to the income statement of the Group.

BUSINESS REVIEW AND MATERIAL INVESTMENT

Hotel and property investment business

As a result of the competitive pricing strategy and location, the Group's hotel room occupancy rates maintained at a satisfactory level and the business remained strong in the time of financial tsunami in 2008. In addition, the demolition work of two properties at Mongkok, Kowloon was completed in May 2008. No construction work was performed at the site.

On 12 and 22 January 2009, the Group announced that the land and hotel were disposed to a connected person. The disposals allowed the Group to concentrate on the new business acquired during the year, and released more capital for future expansion in the resources business, which the Board believes could significantly maximize shareholders' wealth.

Property investment business

The Group owned several low-density luxurious residential properties in Beijing. In order to maximize their value, these properties were renovated. The Group plans to lease out or sell the residential properties depending on prospective offers.

Coke manufacturing and electricity generating business

The conditional sale and purchase agreement dated 8 December 2007, the supplemental agreement to the Sale and Purchase Agreement dated 20 March 2008 and the supplemental letter dated 30 April 2008 each entered into between Buddies Power Enterprises Limited, a wholly-owned subsidiary of the Group and General Nice Resources (Hong Kong) Limited in relation to the acquisition of 100% of the equity interest of Abterra Coal and Coke Limited ("Abterra HK") at a consideration of HK$1,350,000,000 (based on the closing price of the Company's shares at HK$2.00 per share on the date of completion of the acquisition which is 3 September 2008 for the value of the 100,000,000 consideration shares which formed part of the total consideration), together with the non-exempt continuing connected transactions and the relevant annual caps were passed as an ordinary resolutions at the Special General Meeting of the Company held on 24 June 2008. Abterra HK holds in 50.1% equity interest in Shanxi Loudong General Nice Coking & Gas Co., Ltd. ("Loudong PRC") (山西樓東俊安煤氣化有限公司). Loudong PRC is a manufacturer of coke with a designed capacity of 1.8 million tonnes per annum. Coke is a major raw material for steel production and thus most of the customers of Loudong PRC are steel manufacturers or traders whose ultimate customers are also steel makers. It also produces by-products such as coal gas, coal tar, crude benzene, and generates electricity etc. The audited turnover of Loudong PRC for the year ended 31 March 2007 and 2008 were approximately RMB1,211,930,000 and RMB1,655,760,000 respectively, and the net profit amounted to RMB185,055,000 and RMB242,290,000 respectively. The acquisition was completed on 3 September 2008. Due to the rapid growth in demand of mineral resources in Mainland China and worldwide, the Board of the Company believes that the acquisition will benefit the Group as a whole for the shareholders, which was reflected by a substantial increase in turnover for the year after the acquisition.

The debtors' turnover ratio of the Group has changed from 59 days in 2007 to 93 days in 2008. The figure increased as a result of longer credit terms granted to the steel maker or coke trader in China. The management of Loudong PRC closely monitors the repayment status of the debtors on a continual basis. If there is any substantial delay in repayment, credit terms granted to debtors will be adjusted accordingly and specific personnel will be assigned the responsibility to follow up the recovery of the debts. And if the balances due from the debtors turn out to be doubtful, appropriate bad and doubtful debt provision will be provided in due course. So far no significant recoverability problem is noted.

LIQUIDITY, FINANCIAL RESOURCES AND BORROWINGS

As at 31 December 2008, the Group's net current assets were approximately HK$82,662,000, as compared to net current assets approximated to HK$170,409,000 for last year. Current assets amounted to approximately HK$1,434,668,000 (2007: HK$171,856,000), of which approximately HK$294,579,000 (2007: Nil) was fixed and pledged deposits, cash and bank balances. In terms of the quality of current assets, the Group was therefore in a healthy liquidity position.

As at 31 December 2008, the Group had short term bank borrowings of approximately HK$306,158,000 (2007: HK$85,000), which will be due within one year, and long term bank borrowings of approximately HK$3,550,000 (2007: HK$3,676,000). The Group's borrowings were principally denominated in Renminbi. Loudong PRC has maintained a very good credit record with those PRC banks having business relationship. Based on past experiences, Loudong PRC has been able to have all loans renewed and/or granted extension by banks upon request and the Board expects this would continue in the foreseeable future.

CAPITAL STRUCTURE

On 12 August 2008, the Company entered into the Placing Agreement to place up to 72,000,000 shares at the placing price of HK$2.10 per share. The placement was completed on 3 September 2008 with net proceeds of approximately HK$150,000,000 after offsetting the issuance expenses which was applied as part of the consideration for acquiring the coke manufacturing business. On the same day, 100,000,000 shares was issued to General Nice Resources (Hong Kong) Limited ("GNR") at consideration of HK$2.50 per share which formed part of the consideration for acquiring Abterra HK and its fair value has been determined on the closing price of the issuance date, at HK$2.00 per share. Thus the number of total issued shares had been enlarged to 533,115,372 shares. Convertible notes with amount of HK$1,000 million was also issued to GNR as part of the consideration for the Abterra HK acquisition. Up to 31 December 2008, no conversion has been made on the convertible notes.

As at 31 December 2008, the maturity profile of the Group's bank borrowings of HK$309,708,000 was spread with HK$306,158,000 repayable with 1 year, HK$114,000 repayable in the second year, HK$369,000 repayable in the third to fifth year and HK$3,067,000 repayable beyond 5 years.

The Group's total borrowings of HK$309,708,000 were 99% denominated in Renminbi ("RMB") with fixed interest rate and 1% in Hong Kong dollars ("HKD") with floating interest rate. The Group's cash and bank balance of HK$308,325,000 were 94% denominated in RMB and 6% in HKD.

TREASURY POLICY

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

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, the Group acquired Abterra HK at the consideration of HK$1,350,000,000. In the event that the aggregate net profit attributable to the 50.1% interest in Loudong PRC exceeds HK$230 million for the financial years 2008 and 2009, the Group will be liable for an additional consideration of HK$280 million. Due to the rapid growth of demand of mineral resources in Mainland China and worldwide, the acquisition will benefit the Group, and maximize the profit of shareholders in the long run. There is no plan for other material acquisition or disposal of subsidiaries and affiliated companies under review up to 31 December 2009.

EMPLOYEE

As at 31 December 2008, the total number of employees of the Group was approximately 1,680 (2007: 18). The substantial increase in employees was contributed by the coke manufacturing subsidiary acquired during the year. Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as individual's performance. The Group also has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. No options have been granted yet up to the date of this annual report. Other benefits include medical and retirement schemes.

CHARGE OF ASSETS

As at 31 December 2007 and 2008, the investment properties in Beijing were pledged to a bank to secure mortgage loans granted to a subsidiary of the Company with net book value amounted to HK$13,568,000 and HK$9,660,000 respectively. No other material charge of assets was noted.

GEARING RATIO

The gearing ratio of the Group as at 31 December 2008 measured in terms of net debt divided by total capital plus net debt was approximately 36%. The Group includes within net debt, interest-bearing bank borrowing and long-term bank loan, noncurrent portion of loans from non-financial institutions and non-current amounts due to related parties less cash and cash equivalents of the Group. Capital includes equity attributable to the equity holders of the parent and convertible notes. As at Latest Practicable Date, all convertible notes of the Company were converted to share capital. Thus based on the intention of the Company, we treated the convertible notes as equity rather than debt for better comparison. Compared with internally generated cash flow to finance the Group's operations in prior year, the coke manufacturing business acquired during the year was capital intensive. This is the major reason for the significant increase in both the total borrowings compared with prior year. For the year ended 31 December 2007, the Group had negligible debt, thus no comparative information of capital management gearing ratio is presented.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Company has adopted Hong Kong Dollar as its presentation currency. A subsidiary is operating in the PRC, and is therefore exposed to foreign exchange risk. However in view of the stable currency policies adopted by the PRC government, the directors consider that the foreign exchange risk is insignificant.

The Group currently does not have a foreign exchange rate hedging policy in respect of commercial transactions denominated in foreign currencies. However, the directors monitor exchange rate exposure and will consider hedging significant exchange rate exposure should the need arise.

CONTINGENT LIABILITIES

In respect of the acquisition of Loudong PRC, in the event that the aggregate audited net profits attributable to the 50.1% equity interest of Loudong PRC for the financial years 2008 and 2009 exceed HK$230 million, the Group will be liable for an additional consideration of HK$280 million for the acquisition. As of 31 December 2008, no liability was recorded in respect of any additional consideration.

As at 31 December 2008, the Group had discounted bills receivable amounted to HK$53,748,200, which have not reached maturity.

The Group had no contingent liability as at 31 December 2008.

3. FOR THE YEAR ENDED 31ST DECEMBER 2007

FINANCIAL RESULTS

During the financial year under review, the Group recorded continuing operations turnover of approximately HK$9 million representing an increase of around 4.4 times, as compared with approximately HK$2 million for the last year. The consolidated profit attributable to shareholders was approximately HK$3 million as compared with profi t attributable to shareholders approximately HK$555 million for the preceding year, which was mainly generated from the gain on debt restructuring in 2006. Earnings per share was approximately HK$0.01 as compared with earnings per share of HK$8.33 for the preceding year.

BUSINESS REVIEW

Property investment and development, hotel investment and operations were core businesses of the Group.

During the year, the Hong Kong hotel industry continued to be strong. As a result, the Group's hotel room occupancy rates remained at a satisfactory level.

During the year under review, the low-density luxurious residential properties in Beijing had completed the construction phase, and the decoration works have been commenced. The Group plans to lease out or sell the residential properties depending on prospective offers.

On 5 November 2007, a subsidiary of the Group purchased two properties in Mongkok, Kowloon from two independent third parties. In line with the principal business of the Group and given the current favourable market conditions, indicated by the strong economic condition and prosperous tourism and retail business in Hong Kong, the Directors believe that the purchase of the properties represents a good opportunity for the Group to enrich its property reserve for its future development at a reasonable cost. The Group has submitted an application to redevelop the site of the properties for hotel business.

On 8 December 2007, a subsidiary of the Group signed a Sales and Purchase Agreement with General Nice Resources (Hong Kong) Limited pursuant to which the subsidiary will acquire 100% of the equity interests of Abterra Coal and Coke Limited ("Abterra HK") and General Nice-Ming Yuan Coal and Coking Co. Ltd. ("Mingyuan BVI") respectively. Abterra HK is interested in 50.1% equity interest in Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Loudong PRC") (山西樓東俊安煤氣化有限公司), a company incorporated in the PRC with limited liability; and Mingyuan BVI is interested in 100% equity interest in Qingyuan County Ming Yuan Coal Coking Company Limited ("Mingyuan PRC") (沁源縣明源煤焦有限公司), a company also incorporated in the PRC with limited liability. Loudong PRC is a manufacturer of coke with capacity of approximately 1.8 million tones per annum. Loudong PRC also produces coal gas, coke tar, crude benzene, and electricity of substantial amount. Mingyuan PRC is engaged in metallurgical coke manufacturing with capacity of approximately 800,000 tones per annum. On 20th March, 2008, the subsidiary signed a supplemental agreement with General Nice Resources (Hong Kong) Limited pursuant to which the Group has agreed not to purchase Mingyuan PRC owing to the recent approval by the Shanxi Province Bureau of Land and Resources of a coal mine acquisition by Mingyuan PRC whereby majority foreign ownership is not allowed. The revised consideration was reduced to HK$1.4 billion; the consideration shall be increased by HK$280 million in the event that the aggregate of the audited attributable net profits of 50.1% equity interest of Loudong PRC for two financial years ending 31 December 2009 exceeds HK$230 million.

CAPITAL STRUCTURE

As at 31 December 2007, the maturity profile of the Group's bank borrowings of HK$3,761,000 was spread with HK$85,000 repayable with 1 year, HK$85,000 repayable in the second year, HK$303,000 repayable in the third to fifth year and HK$3,288,000 repayable beyond 5 years.

The Group's total bank borrowings of HK$3,761,000 were 100% denominated in HKD with floating rate. The Group's cash and bank balances of HK$163,211,000 were 100% denominated in HKD.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2007, the investment properties in Mainland China were pledged to a bank to secure bank loans granted to a subsidiary of the Company with net book value amounted to HK$13,568,000.

The Group had no contingent liability as at 31 December 2007.

EMPLOYEE

As at 31 December 2007, the total number of employees of the Group was 18. The Group continue to reward its staff with a reasonable remuneration package which includes medical insurance, retirement benefit and share options, etc.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, the Group completed the disposal of 100% equity interest in The Sun's Property Management Limited (the "SPM") at a consideration of HK$1. Given the continuous loss making operation carrying out by SPM, it is in the benefit of the Group to dispose of SPM in order to improve the financial performance of the Group. The Group recorded a gain on disposal of HK$67,000 with reference to the net liabilities of SPM as at 31 October 2007 and the consideration.

The Group has no other significant material acquisitions or disposal of subsidiaries and affiliated companies during the year under review.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group has adopted the Hong Kong dollar as its functional and presentation currency. A subsidiary is operated in the People's Republic of China, and is therefore exposed to foreign exchange risk. However in view of the stable currency policies adopted by the PRC government, the directors consider that the foreign exchange risk is insignificant.

The Group currently does not have a foreign exchange rate hedging policy in respect of commercial transactions denominated in foreign currencies. However, the directors monitor exchange rate exposure and will consider hedging significant exchange rate exposure should the need arise.

FUND RAISING

Pursuant to the prospectus issued on 8 August 2007, Rights Issue of 112,038,437 Rights Shares of HK$0.01 each at HK$1 per Rights Share, payable in full on acceptance on the basis of one Rights Share for every two existing shares held, and following the full subscription of the Rights Shares on 31 August 2007, the Company received net proceeds of approximately HK$111 million (net of expenses of HK$1 million).

Pursuant to the Subscription Agreement dated 25 September 2007, the Company allotted and issued to Pachmar Limited for a total of 25,000,000 shares at HK$1.20 each. In respect of the subscription of shares, the Company received an amount of approximately HK$30 million (net of expenses in relation to the Subscription).

The directors intended to use the proceeds of the Rights Issue and Subscription of Shares as general working capital and for the purchase of the two properties in Mongkok, Kowloon and future investments in natural resources sectors in overseas, should the appropriate opportunities arise.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

As at 31 December 2007, the Group's net current assets were approximately HK$170.4 million, as compared with HK$101.9 million for last year. Current assets amounted to approximately HK$171.9 million (2006: HK$103.6 million), of which approximately HK$163.2 million (2006: HK$91.1 million) was fixed deposits, cash and bank balances. In terms of the quality of current assets, the Group was therefore in a healthy liquidity position.

As at 31 December 2007, the Group had short term bank borrowings of approximately HK$0.09 million (2006: HK$0.07 million), which will be due within one year, and long term bank borrowings of approximately HK$3.7 million (2006: HK$3.8 million). All the Group's borrowings were principally denominated in Hong Kong dollars.

The gearing ratio of the Group as at 31 December 2007 measured in terms of net debt divided by shareholders' equity plus net debt, which net debt includes bank borrowings less cash and cash equivalents. Since the cash and cash equivalent were sufficient to settle the debt, the calculation for gearing ratio is not applicable. The Group financed its operations generally with internally generated cash flows.

REMUNERATION COMMITTEE

The Remuneration Committee was established with written terms of reference based on terms no less exacting than the required standard as set out in the Code on Corporate Governance Practices (the "Code"). The Remuneration Committee comprises three members namely, Mr. Antony Chiu, Mr. Kwee Chong Kok, Michael and Mr. Leung Chung Sing, the independent non-executive directors of the Company. The Remuneration Committee is to review and determine the remuneration policy and other remuneration related matters of the Directors and the senior management of the Group.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee was established with written terms of reference based on terms no less exacting than the required standard as set out in the Code. The Audit Committee comprises three members namely Mr. Antony Chiu, Mr. Kwee Chong Kok, Michael and Mr. Leung Chung Sing, the independent non-executive directors of the Company.

The Audit Committee has reviewed with management and the auditors the audited consolidated annual results of the Group for the year ended 31 December 2007.

MANAGEMENT DISCUSSION AND ANALYSIS ON LOUDONG PRC

Set out below is the management discussion and analysis on Loudong PRC for the year ended 31 December 2009, nine-month period ended 31 December 2008 and year ended March 2008.

TURNOVER

The turnover of Loudong PRC was primarily arising from the sales of coke, coal gas, chemical related side products and electricity. The turnover for the year ended 31 December 2009, nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007 were RMB1,079 million, RMB1,233 million (annualised RMB1,644 million), RMB1,656 million and RMB1,212 million respectively. The decrease in turnover for the year ended 31 December 2009 is due to the financial tsunami. It led to a substantial reduction in demand for steel, of which coking coal is one of the major ingredient for its production. The turnover was steady for the annualised amount of the nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007.

PROFIT

The profit attributable of Loudong PRC was RMB264 million, RMB184 million (annualised RMB245 million), RMB242 million and RMB185 million for the year ended 31 December 2009, nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007 respectively. The increase in profit for the year ended 31 December 2009 is due to reduce selling costs, as Loudong PRC successfully negotiated with most of the suppliers and customers to bear the transportation costs and bad debt recoveries as financial condition improved. The profit was steady for the annualised amount of the nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007.

BUSINESS REVIEW AND PROSPECTS

The target company, General Nice-Loudong Coal and Coke Limited, is interested in 39.9% of Loudong PRC. Loudong PRC is principally engaged in coking coal processing, metallurgical coke manufacturing in Shanxi, PRC. The annual approved production capacity of Loudong PRC is 1.2 million MT. Upon completion of the Acquisition, the effective equity interest of the Loudong PRC held by the Group will increase from 50.1% to 90%. Due to the strong financial results of Loudong PRC, it will definitely benefit the Group in financial aspect.

COMMODITY PRICE RISK

The major raw material used in the production of Loudong PRC's products is coals. Loudong PRC is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect Loudong PRC's financial performance. However, subsequent to the proposed acquisition of the coal mines in this year, with supply guarantee and comparative advantage in price, the commodity price risk exposure will considerably reduce.

BUSINESS RISK

Loudong PRC's sales are primarily to several major customers. Loudong PRC has a significant concentration of business risk as 87%, 79%, 65% and 52% on total sales for the year ended 31 December 2009, nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007 respectively, were made to Loudong PRC's five largest customers. In the event that these customers ceased to purchase from Loudong PRC and Loudong PRC could not secure orders from other customers, Loudong PRC's turnover and profitability would be adversely affected.

Loudong PRC's coal purchases are primarily from several coal mines. There was some concentration of coal purchase risk as about 36%, 72%, 20% and 40% on total coal purchases for the years ended 31 December 2009, nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007 respectively, were supplied by the five largest suppliers. In the event that Loudong PRC was unable to agree on terms with these suppliers or these suppliers failed to supply the coals to meet with the production orders, Loudong PRC's production and profitability would be adversely affected. However, after the proposed acquisition of the entity interest for the coal mines, the risk will reduce accordingly.

EXCHANGE RISK

For all the year/period under review, the operation of Loudong PRC is in the PRC and it has no significant exposure to any specific foreign currency other than RMB. Most of Loudong PRC's cash and cash equivalents are deposits with major banks located in the PRC. The receivables and borrowings of Loudong PRC are mainly denominated in RMB. Loudong PRC does not have a foreign currency hedging policy at present. Having said that, the management will closely monitor the exposure of foreign exchange and will consider undertaking foreign exchange hedging activities to neutralize the impact of the fluctuation of the exchange rates on the operating results of Loudong PRC.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Loudong PRC was financed by shareholders' funding and bank and other loans. The amount of bank and other loans was approximately RMB205 million, RMB291 million, RMB326 million and RMB359 million as at 31 December 2009, 31 December 2008, 31 March 2008 and 31 March 2007 respectively. Loudong PRC improved its working capital resulting in net current assets amounted to RMB162 million at 31st December 2009 from a net current liabilities amounted to RMB107 million, RMB253 million and RMB978 million at 31 December 2008, 31 March 2008 and 31 March 2007 respectively.

Loudong PRC had total bank borrowings with maturity profile of RMB193 million, RMB270 million, RMB304 million and RMB327 million as at year ended 31 December 2009, 31 December 2008, 31 March 2008 and 31 March 2007 respectively were all repayable within 1 year and with fixed interest rate.

The amounts due to a related company, General Nice (Tianjin) Industry Limited and minority shareholders, General Nice Development Limited, Shanxi Xiaoyi Loudong Trade Enterprises Group Company, Shanxi Dajin International (Group) Company and Shanxi Nan Tie Lou Jun Coke Transportation Company Limited were approximately RMB676 million, RMB668 million, RMB799 million and RMB21 million as at 31 December 2009, 31 December 2008, 31 March 2008 and 31 March 2007 respectively. Such amounts due to the related company and minority shareholders were of non-trade nature, unsecured, interest-free and not repayable within 12 months from this date. Loudong PRC will consistently implement a prudent liquidity risk management and ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements.

Loudong PRC's exposure to the risk of changes in market interest rates relates primarily to Loudong PRC's long term debt obligations. Borrowings at floating rates expose Loudong PRC to cash flow interest rate risk. Borrowings at fixed rates expose the Loudong PRC to fair value interest rate risk. Since Loudong PRC mainly entered into floating interest rate loans with short-term maturities, there are no significant fair value interest rate risk and cash flow interest rate risk at 31 December 2009. Loudong PRC has not used any interest rate swaps to hedge its exposure to interest rate risk. Loudong PRC analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration of refinancing, renewal of existing positions and alternative financing. Based on these scenarios, Loudong PRC calculates the impact on profit and loss of defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on profit or loss of a 100 basis-point shift would be a maximum increase/decrease of RMB1,565,000, RMB2,675,000, RMB1,044,000 and RMB971,000 for the year ended 31 December 2009, nine-month period ended 31 December 2008, year ended 31 March 2008 and 31 March 2007 respectively. The gearing ratio of Loudong PRC, calculated as net debt to net debt plus total equity, was approximately 22%, 33%, 37% and 31% as at year ended 31 December 2009, 31 December 2008, 31 March 2008 and 31 March 2007 respectively.

TREASURY POLICIES

Loudong PRC consistently maintains a prudent financial policy and its operations are generally financed by shareholders' funding and bank borrowings. It has not paid dividends in the past so as to retain funds for production expansion.

CHARGES ON ASSETS

No assets were subject to charge for the year/period under review.

CONTINGENT LIABILITIES

Loudong PRC had discounted bills receivable amounting to RMB49,897,000, RMB47,298,000, RMB162,575,000 and RMB86,548,000 as at 31 December 2009, 31 December 2008, 31 March 2008 and 31 March 2007 respectively, which have not reached maturity.

CAPITAL COMMITMENTS

No capital commitment was noted for the year/period under review.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

As at 31 December 2009, 31 December 2008, 31 March 2008 and 31 March 2007, the Loudong PRC did not have any significant investment, material acquisition and disposal during the period.

EMPLOYEES

As at 31 December 2009, 31 December 2008, 31 March 2008, Loudong PRC had maintained its number of employees at around 1,700 and approximately 2000 employees as at 31 March 2007. Staff costs, including directors' remuneration, was approximately RMB20.6 million, RMB21.1 million, RMB22.1 million, and RMB18.5 million for the year ended 31 December 2009, nine-month period ended 31 December 2008, years ended 31 March 2008 and 31 March 2007 respectively. The Loudong PRC remunerates its employees based on their performance, experience and the prevailing industry practice.

For illustrative purposes only, set out below is the unaudited pro forma financial Information of Loudong General Nice Resources (China) Holdings Limited and its subsidiaries (the "Group") after completion of the acquisition of General Nice-Loudong Coal & Coke Limited ("GNLCC") prepared for the purpose of this circular. The unaudited pro forma financial information is prepared in accordance with Paragraphs 4.29 (1) and 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of such acquisition on the Group's financial information.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The accompanying unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group (defined as the Group together with GNLCC) has been prepared to illustrate the effect of the proposed acquisition of a 100% equity interest in GNLCC (the "Acquisition"), and comprises the unaudited pro forma consolidated statements of comprehensive income and of cash flows for the year ended 31 December 2009, which give effect to the Acquisition as if the Acquisition had been completed on 1 January 2009, and the unaudited pro forma consolidated statement of financial position as at 31 December 2009, which gives effect to the Acquisition as if the Acquisition had been completed on 31 December 2009.

The unaudited pro forma consolidated statement of comprehensive income and of cash flows of the Enlarged Group have been prepared based upon the audited consolidated statements of comprehensive income and of cash flows of the Group for the year ended 31 December 2009 as set out in Appendix I to this Circular, the audited statements of comprehensive income and of cash flows of Loudong PRC for year ended 31 December 2009 as set out in Appendix III to this Circular, and the audited statements of comprehensive income and of cash flows of GNLCC for the year ended 31 December 2009 as set out in Appendix II to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2009 as set out in Appendix I to this Circular, the audited statement of financial position of Loudong PRC as at 31 December 2009 as set out in Appendix III to this Circular, and the audited statement of financial position of GNLCC as at 31 December 2009 as set out in Appendix II to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma adjustments of the Acquisition comprise only adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, and are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2009, or the results and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on 1 January 2009. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this Circular, the financial information of Loudong PRC as set out in Appendix III to this Circular, the audited financial information of GNLCC as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

1. Unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009

Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, prepared as if the Acquisition was completed on 1 January 2009.

	Audited consolidated Statement of Comprehensive income of the Group for the year ended 31 December 2009	Audited Statement of comprehensive income of the Target for the year ended 31 December 2009	Pro forma adjustment		Unaudited pro-forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2009
	Audited	Audited			
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
CONTINUING OPERATIONS					
REVENUE	1,224,798	–			1,224,798
Cost of sales	(778,276)	–			(778,276)
Gross profit	446,522	–			446,522
Other income	118,789	–			118,789
Selling and distribution costs	(53,494)	–			(53,494)
Administrative expenses	(67,148)	(14)			(67,162)
Other operating expenses	(27,309)				(27,309)
Finance costs	(80,733)	–	(15,409)	*(5)*	(96,142)
Share of profit of an associate	–	119,372	(119,372)	*(6)*	–
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	336,627	119,358			321,204
Income tax expense	(141,927)	–			(141,927)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	194,700	119,358			179,277
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	4,796	–			4,796
PROFIT FOR THE YEAR	199,496	119,358			184,073
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	2,900	977	(977)		2,900
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	202,396	120,335			186,973
Profit attributable to:					
Owners of the parent	50,414	119,358	(15,409)	*(3), (5)*	154,363
Minority interests	149,082	–	(119,372)	*(3), (6)*	29,710
	199,496	119,358			184,073
Total comprehensive income attributable to:					
Owners of the parent	51,867	120,335	(15,229)		156,973
Minority interests	150,529	–	(120,529)	*(4)*	30,000
	202,396	120,335			186,973

2. *Unaudited pro forma consolidated statement of financial position as at 31 December 2009*

Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2009, prepared as if the Acquisition was completed on 31 December 2009.

	Audited consolidated statement of financial position of the Group as at 31 December 2009	Audited statement of financial position of the Target as at 31 December 2009	Pro forma adjustment for funds raised	Acquisition of GNLCC		Unaudited pro forma Consolidated statement of financial position the Enlarged Group as at 31 December 2009
	Audited	Audited	*(Note 1)*	*(Note 2)*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
NON-CURRENT ASSETS						
Property, plant and equipment	2,266,238	–				2,266,238
Investment properties	11,199	–				11,199
Prepaid land premiums	50,716	–				50,716
Interest in an associate	5,792	679,572		(679,572)	*(2c)*	5,792
Available-for-sale investments	5,679	–				5,679
Goodwill	330,083	–				330,083
Other long term assets	200,000	–				200,000
Deferred tax assets	6,814	–				6,814
TOTAL NON-CURRENT ASSETS	2,876,521	679,572				2,876,521
CURRENT ASSETS						
Inventories	473,849	–				473,849
Trade and bills receivables	184,908	–				184,908
Prepayments, deposits and other receivables	595,374	–				595,374
Equity investments at fair value through profit or loss	568	–				568
Amounts due from related companies	34,673	–				34,673
Pledged deposits	134,908	–				134,908
Cash and cash equivalents	59,068	7	249,117	(290,000)	*(2a)*	18,192
Total current assets	1,483,348	7				1,442,472
CURRENT LIABILITIES						
Trade and bills payables	244,819	–				244,819
Other payables and accruals	212,183	–				212,183
Interest-bearing bank and other borrowings	222,095	–				222,095
Amounts due to related companies	6,592	4,500		(4,500)	*(2b)*	6,592
Amount due to a shareholder	291,223	285,158		(285,158)	*(2b)*	291,223
Amount due to a director	12	–				12
Tax payable	274,540	–				274,540
Total current liabilities	1,251,464	289,658				1,251,464
NET CURRENT ASSETS	231,884	(289,651)				191,008
TOTAL ASSETS LESS CURRENT LIABILITIES	3,108,405	389,921				3,067,529

	Audited consolidated statement of financial position of the Group as at 31 December 2009	Audited statement of financial position of the Target as at 31 December 2009	Pro forma adjustment for funds raised	Acquisition of GNLCC		Unaudited pro forma Consolidated statement of financial position the Enlarged Group as at 31 December 2009
	Audited	Audited	*(Note 1)*	*(Note 2)*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
NON-CURRENT LIABILITIES						
Long-term bank loans	9,532	–				9,532
Loans from related companies	524,840	–				524,840
Loans from non-financial institutions	13,606	–				13,606
Convertible notes	638,117	–		200,121	*(2a)*	838,238
Tax payable	89,108	–				89,108
Other long-term payables	13,429	–		48,029	*(2a)*	61,458
Deferred tax liabilities	34,526	–				34,526
TOTAL NON-CURRENT LIABILITIES	1,323,158	–				1,571,308
NET ASSETS	1,785,247	389,921				1,496,221
EQUITY						
Equity attributable to owners of the parent						
Share capital	9,912	389	1,675	(389)		11,587
Equity component of convertible notes	107,436	–		49,879	*(2a)*	157,315
Reserves	747,748	389,532	247,442	(241,802)	*(2a,b,c)*	1,142,920
	865,096	389,921				1,311,822
Minority interests	920,151			(735,752)	*(2a)*	184,399
TOTAL EQUITY	1,785,247					1,496,221

3. Unaudited pro forma combined statement of cash flow for the year ended 31 December 2009

Unaudited pro forma consolidated statement of cash flows of the Enlarged Group, prepared as if the Acquisition was completed on 1 January 2009.

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2009	Audited statement of cash flows of the Target for the year ended 31 December 2009	Pro forma adjustments		Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2009
	Audited	Audited			
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax:					
From continuing operations	336,627	119,358	(134,781)	*(5),(6)*	321,204
From discontinued operations	5,944				5,944
Adjustments for:					
Finance costs excluding interest on convertible notes	17,172				17,172
Share of profit of an associate	(9)	(119,372)	119,372	*(6)*	(9)
Interest income	(6,882)				(6,882)
Loss on disposal of items of property, plant and equipment	38				38
Fair value gain, net:					
Equity investments at fair value through profit or loss	(2,487)				(2,487)
Depreciation	98,744				98,744
Changes in fair value of investment properties	(1,539)				(1,539)
Amortization of prepaid land lease payments	1,022				1,022
Reversal of inventories	(18,176)				(18,176)
Reversal of trade receivables	(38,096)				(38,096)
Equity-settled share option expenses	10,085				10,085
Interest accrual for convertible notes	63,561		15,409	*(5)*	78,970
	466,004	(14)			465,990
Increase in inventories	(199,369)				(199,369)
Decrease in trade and bills receivables	74,718				74,718
Increase in prepayments, deposits and other receivables	(12,049)				(12,049)
(Increase)/decrease in amounts due from related parties	(29,645)	21			(29,624)
Decrease in trade and bills payables	(186,165)				(186,165)
Decrease in other payables and accruals	(70,796)				(70,796)
Decrease in amounts due to related companies	(1,851)				(1,851)
Increase in amounts due to a director	12				12
Cash generated from operations	40,859	7			40,866
Income tax paid	(3,452)	–			(3,452)
Net cash flows from operating activities	37,407	7			37,414

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2009	Audited statement of cash flows of the Target for the year ended 31 December 2009	Pro forma adjustments		Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2009
	Audited	Audited			
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	6,882	–			6,882
Purchases of items of property, plant and equipment	(55,115)				(55,115)
Addition to prepaid land premium	(13,966)				(13,966)
Proceeds from disposal of items of property, plant and equipment	10				10
Proceeds from disposal of trading investment	8,993				8,993
Deposit paid for an acquisition of a subsidiary	(200,000)				(200,000)
Proceeds from assets held for sale	143,000				143,000
Decrease in pledged deposits	159,671				159,671
Purchases of available-for-sale investments	(236)				(236)
Additional acquisition of equity interests in a subsidiary	–	–	(290,000)	*(2a)*	(290,000)
Net cash flows from/(used in) investing activities	49,239	–			(240,761)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	270,343		249,117	*(1)*	519,460
New bank loans	452,301				452,301
Decrease in loans from related companies	(190,797)	–			(190,797)
Repayment of loans from banks and non-financial institutions	(541,178)				(541,178)
Interest paid	(31,993)				(31,993)
Net cash flows used in/from financing activities	(41,324)	–			207,793
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,322	7			4,446
Cash and cash equivalents at beginning of year	13,746	–			13,746
CASH AND CASH EQUIVALENTS AT END OF YEAR	59,068	7			18,192

Notes to the Unaudited Pro Forma Statement of Financial Position

(1) The adjustment reflects the funds from the proposed share placement of HK$249,117,000 (net of the placing commission and legal and out-of-pocket expenses incurred by the Placing Agent) as if the placing had been completed on 31 December 2009. It is anticipated that 167,502,000 Shares will be issued at the Placing Price of HK$1.50 per share.**

(2a) The adjustment reflects the acquisition of a 100% equity interest in GNLCC at a total nominal consideration of HK$600,000,000 with a fair value of HK$588,022,000, satisfied by HK$290,000,000 of cash consideration partially reduced by HK$7,000 of bank balance in GNLCC, taken over by the Group, HK$60,000,000 of non-interest bearing promissory note with net present value of HK$48,029,000 discounted at an effective interest rate of 7.7% per annum, and HK$250,000,000 of non-interest bearing Convertible Bond, upon the completion of the Acquisition. The substantive effect of this acquisition is that the Group will acquire a further indirect 39.9% equity interest in its subsidiary, Loudong PRC, currently held by GNLCC. GNLCC holds no other investments. This has therefore been reflected in the unaudited pro forma financial information as an acquisition of minority interests in a controlled entity. Hence, the minority interest of HK$735,752,256, attributable to the 39.9% equity interest in Loudong PRC as at 31 December 2009, was released from the minority interest account, and an excess of equity interest over cost amounting to HK$147,730,191 was credited to reserve.***

In accordance with HKAS 32, a convertible bond is a compound financial instrument which requires classification of its component parts on initial recognition. The liability component is measured first using a market rate for an equivalent non convertible financial instrument, and the difference between the proceeds of the convertible bond issue and the fair value of the liability is assigned to the equity component. On this basis, the proposed convertible bond of HK$250 million has been recognized as a non current liability of HK$200,121,108 and an increase in equity reserves of HK$49,878,892.

(2b) As shown in Appendix III, as at 31 December 2009 GNLCC had recorded liabilities totaling HK$289,657,504 to related parties. These liabilities arose from the acquisition of the equity interests in Loudong PRC. As a pre-conditions of the acquisition arrangement, these liabilities were waived prior to completion of the acquisition. Here the unaudited pro forma consolidated statement of financial position as at 31 December 2009 reflects this subsequent conversion of liabilities to equity as if it had occurred as at that date.

(2c) The adjustment reflects elimination of cost of investment in associate of HK$290,000,000 and accumulated share of profit of associate of HK$389,572,500.

Notes to the Unaudited Pro Forma Statement of Comprehensive Income

(3) The adjustment reflects the net profits attributable to the 39.9% of equity shareholders for the year ended 31 December 2009 as if the acquisition had been completed on 1 January 2009.*

(4) The adjustment reflects the total comprehensive income attributable to the 39.9% of equity shareholders for the year ended 31 December 2009 as if the acquisition had been completed on 1 January 2009.*

(5) The adjustment represents the imputed interest expense of HK$15,409,325 for the year ended 31 December 2009 on the Convertible Bond, assuming an effective interest rate of 7.7% per annum, as if the acquisition had been completed on 1 January 2009. This unaudited pro forma adjustment will have continuing income statement effect to the Enlarged Group, and the actual amount will vary according to the timing of the whole or any part of the Convertible Bond being converted or redeemed and the applicable effective rate.

(6) The adjustment reflects elimination of current share of profit of associate of HK$119,372,000.*

* The adjustment is recurring in nature but the impact of such recurring adjustment will depend on the financial result/position of the Enlarged Group in each year.

** The adjustment will not have recurring effect on the Enlarged Group.

*** The adjustment will not have recurring effect on the cashflow statement of the Enlarged Group.

The following is the text of a report, received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

21 June 2010

The Directors
Loudong General Nice Resources (China) Holdings Limited
12B, Lippo Leighton Tower
103 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs

Loudong General Nice Resources (China) Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group")

UNAUDITED PRO FORMA FINANCIAL INFORMATION

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Group set out on pages 210 to 216 in Appendix V to the Company's circular dated 21 June 2010 in connection with the proposed Acquisition (as defined in the Circular) by Abterra Coal Coke and Limited, a wholly owned subsidiary of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Group if it had taken place on 31 December 2009 for the purposes of presenting the unaudited pro forma consolidated statement of financial position, and on 1 January 2009 for the purposes of presenting the unaudited pro forma consolidated statements of comprehensive income and of cash flows.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

(i) the financial position of the Enlarged Group as at 31 December 2009 or any future date; or

(ii) the results and cash flows of the Enlarged Group for the year ended 31 December 2009 or any future period.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

Yours faithfully

Ernst & Young
Certified Public Accountants
Hong Kong

(1) RESPONSIBILITY STATEMENT

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

(2) SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date and upon full conversion of all the Convertible Bonds will be as follows:

Authorised		*HK$*
200,000,000,000	Shares	2,000,000,000
Issued and to be issued, fully paid and/or credited as fully paid		
1,485,947,811	Shares in issue as at the Latest Practicable Date	14,859,478.11
166,666,666	Conversion Shares to be allotted and issue assuming full exercise of the Convertible Bonds	1,666,666.67
1,652,614,477	Total Shares in issue upon full conversion of all the Convertible Bonds	16,526,144.77

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Convertible Shares upon full conversion, to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has 23,338,727 share options outstanding and exercisable at price of HK$0.782 per Share.

Save as disclosed above, the Company does not have any other outstanding options, convertible notes or securities in issue which are convertible or exchangeable into Shares.

(3) DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Long position in the shares and underlying shares of the Company

Name of Director	Capacity	Number of ordinary Shares held	Number of Share options held	Total	Approximate percentage
Cai Sui Xin	Corporate Interest	278,376,383 *(Note)*	–	284,381,004	19.14%
	Personal interest	–	6,004,621		
Zhao Cheng Shu	Personal interest	–	4,531,792	4,531,792	0.30%
Lau Yu	Personal interest	7,342,000	4,531,792	11,873,792	0.80%
Ng Tze For	Personal interest	–	3,285,549	3,285,549	0.22%
Li Xiao Juan	Personal interest	630,000	3,965,318	4,595,318	0.31%
Cheung Siu Chung	Personal interest	–	226,590	226,590	0.02%
Li Xiao Long	Personal interest	–	226,590	226,590	0.02%
Choy So Yuk	Personal interest	–	226,590	226,590	0.02%

Note: The 278,376,383 Shares are beneficially owned by GNR. Mr. Cai Sui Xin was deemed to be interested in the 278,376,383 Shares by virtue of the fact that each of General Nice Development Limited ("**GND**") and General Nice Investment (China) Limited ("**GNI**") hold 40% equity interest in GNR while Vantage Region International Limited ("**Vantage Region**") and Mr. Cai Sui Xin holds 50% and 5% equity interests in each of GND and GNI respectively, Vantage Region is in turn wholly owned by Mr. Cai Sui Xin.

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

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Long position in the shares of the Company

Name of Shareholder	**Capacity**	**Number of ordinary Shares held** *(Note)*	**Approximate percentage**
GNR	Beneficial owner	278,376,383	18.73%
GND	Owner of controlled corporation	278,376,383	18.73%
GNI	Owner of controlled corporation	278,376,383	18.73%
Vantage Region	Owner of controlled corporation	278,376,383	18.73%
Tsoi Ming Chi	Owner of controlled corporation	278,376,383	18.73%

Note: The 278,376,383 Shares are beneficially owned by GNR. Each of GND and GNI holds 40% equity interest in GNR while Vantage Region and Mr. Tsoi Ming Chi hold 50% and 35% equity interests in each of GND and GNI respectively. Each of GND, GNI, Vantage Region and Mr. Tsoi Ming Chi was deemed to be interested in the Shares held by GNR.

Interests in other members of the Group

Name of non wholly-owned subsidiary of the Company	Name of substantial shareholders (other than member of the Group)	Percentage of interest
Loudong PRC	Target	39.9%
	Shanxi Daijin	10.0%

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

(4) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

(5) COMPETING INTERESTS

As at the Latest Practicable Date, the following Director was considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

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

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

(6) LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

(7) MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and which is or may be material:

(a) the Agreement;

(b) the Supplemental Agreement;

(c) a conditional sale and purchase agreement dated 4 May 2010 entered into between Loudong PRC as purchaser and Xin Jian Bin, a PRC national, as vendor in relation to the acquisition of 山西臨縣泰業煤礦有限責任公司 Shanxi Linxian Taiye Coal Mining Company Limited ("Linxian Taiye"), which is a company incorporated in the PRC with limited liability at a consideration of RMB700,000,000 (equivalent to HK$795,400,000);

(d) a non-legally binding memorandum of understanding dated 4 May 2010 entered into among Loudong PRC as purchaser and Li Jing Hu and Zhou Cheng Wang as vendors in relation to the possible acquisition of 30% equity interests of 山西呂梁離石區擔炭溝煤業有限公司 Shanxi LvLiang Lishi Dan Tan Gou Mining Co., Ltd., which is a company incorporated in the PRC with limited liability;

(e) an unconditional placing and subscription agreement dated 15 January 2010 entered into among GNR, Enlighten Securities Limited and the Company in relation to the placing of up to 167,502,000 shares, on a best efforts basis, at the placing price of HK$1.5 per placing share and subscription of up to 167,500,000 shares by GNR at the subscription price of HK$1.5 per subscription share. The gross proceeds raised was approximately HK$251 million and the net proceeds after deducting the placing commission and other related expenses was approximately HK$249 million.

(f) a non-legally binding memorandum of understanding dated 16 September 2009 entered into between Loudong PRC as purchaser and Mr. Zhang Li Rong, Mr. Xin Jian Bin and Mr. Ma Sheng Ping as vendors in relation to the possible acquisition of 49% equity interests of the Linxian Taiye;

(g) an unconditional placing and subscription agreement dated 27 August 2009 entered into among GNR, the Company and China Merchants Securities (HK) Co., Ltd. in relation to the placing of up to 106,500,000 shares, on a best efforts basis, at the placing price of HK$1.28 per placing share and subscription of up to 106,500,000 new shares by GNR as subscriber at the subscription price of HK$1.28 per subscription share. The gross proceed raised was HK$136.3 million and the net proceed after deducting the placing commission and other related expenses was approximately HK$131.8 million;

(h) a non-legally binding memorandum of understanding dated 7 August 2009 entered into between Abterra HK as purchaser and the Vendor as vendor in relation to the possible acquisition of the entire equity interest of the Target;

(i) an underwriting agreement dated 16 June 2009 entered into among the Company, GNR and Enlighten Securities Limited in relation to the proposed issue of offer shares on the basis of two offer shares for every five Shares held to qualifying shareholders by way of rights at the subscription price of HK$0.66 per offer share. The gross proceed raised was HK$140.7 million and the net proceed after deducting the commission and other related expenses was approximately HK$138.5 million;

(j) an underwriting agreement dated 13 March 2009 entered into between the Company and GNR in relation to the proposed issue of offer shares on the basis of two offer shares for every five Shares held to qualifying shareholders by way of rights at the subscription price of HK$0.66 per offer share (which was subsequently terminated and replaced by the underwriting agreement dated 16 June 2009 as stated in (i) above);

(k) a conditional agreement dated 29 October 2008 and entered into between City Joint Investments Limited as vendor and Everbig Investments Limited as purchaser in relation to the disposal of the entire equity interest in Rolling Development Limited and New Point Management Limited at a consideration of HK$80,000,000;

(l) a conditional agreement dated 29 October 2008 and entered into between the Company as vendor and Everbig Investments Limited as purchaser in relation to the disposal of the entire equity interest in New Fortune Development Limited at a consideration of HK$63,000,000; and

(m) a tax deed of indemnity dated 3 September 2008 and entered into between GNR and Buddies Power Enterprises Limited ("Buddies Power"), a wholly-owned subsidiary of the Company, in relation to the tax indemnity given by GNR to Buddies Power pursuant to a sale and purchase agreement dated 8 December 2007 (as amended) made between GNR as vendor and Buddies Power as purchaser in respect of the acquisition of 100% equity interest in Abterra HK (the "Abterra HK Acquisition Agreement");

(n) an environmental deed of indemnity dated 3 September 2008 and entered into between GNR and Buddies Power in relation to the environmental indemnity given by GNR to Buddies Power pursuant to the Abterra HK Acquisition Agreement; and

(o) a placing agreement dated 12 August 2008 entered into between the Company and Grand Vinco Capital Limited in relation to the placing of a maximum of 72,000,000 new Shares at the placing price of HK$2.10 per placing share.

(8) EXPERT AND CONSENT

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	**Qualifications**
INCU	A licensed corporation to carry out type 6 regulated activity (advising on corporate finance) pursuant to the SFO
Ernst & Young ("**E&Y**")	Certified Public Accountants

Each of INCU and E&Y has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of INCU, and E&Y does not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of INCU and E&Y does not have any direct or indirect interests in any assets which had been since 31 December 2009, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any members of the Group.

(9) DIRECTORS' INTERESTS IN ASSETS/ CONTRACTS AND OTHER INTERESTS

(a) Save for Mr. Zhao Cheng Shu and Ms. Li Xiao Juan interests in the Target through being the directors of the Vendor, none of the Directors had any direct or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2009, the date to which the latest published audited financial statements of the Enlarged Group were made up.

(b) As at the Latest Practicable Date, save for Mr. Zhao Cheng Shu and Ms. Li Xiao Juan interests in the Target Group through being the directors of the Vendor, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group.

(10) DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Cai Sui Xin	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Mr. Zhao Cheng Shu	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Mr. Lau Yu	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Mr. Ng Tze For	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Ms. Li Xiao Juan	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Mr. Cheung Siu Chung	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Mr. Li Xiao Long	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Ms. Choy So Yuk	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong

Biographical details of each Directors and Senior Management

Executive Directors

Mr. Cai Sui Xin, aged 49, was appointed as executive Director and chairman of the Company with effect from 19 September 2008. Mr. Cai is the founder and chairman of GND, GNR and General Nice (Tianjin) (collectively "General Nice"). General Nice has developed into two main segments of business, the first segment involves the mining of coal, coal washing, coke manufacturing, logistic business for coke and coal, and the sale of coal, coking coal and coke; the second segment involves the exploration of iron mines and the importing of iron ore into the PRC. With Mr. Cai's well-established business relationship in Tianjin and Shanxi, General Nice has expanded to one of the PRC's biggest private producers and operators of metallurgical coke. Mr. Cai is the executive chairman and an executive director of Abterra Limited, a company listed on the Singapore Exchange Securities Trading Limited ("**SGX**"). Mr. Cai is currently a director of Abterra HK and Loudong PRC, both are subsidiaries of the Company.

Mr. Zhao Cheng Shu, aged 46, was appointed as executive Director on 2 April 2009. He is also the deputy chairman of the Company. Mr. Zhao is an economist and a senior engineer and has accumulated over 20 years of experience in the management of sizeable enterprises in the PRC. Currently he is a director and general manager of Loudong PRC. He is responsible for overall management and operations of Loudong PRC. Besides, Mr. Zhao is the general manager of Xiaoyi Loudong, a director of the Vendor, the vice president of the Federation of Young Entrepreneurs of Shanxi Province, Standing Committee of the Political Consultative Conference and Representative to the National People's Congress of Xiaoyi City of Shanxi Province, Deputy President of the Chamber of Industrial and Commerce of Xiaoyi City of Shanxi Province, Committee of the Political Consultative Conference of Luiliang City of Shanxi Province. Mr. Zhao also has contributed a lot to the society and thus been awarded many honourable titles and prizes, including "Advance Worker Assisting Economic Development of Private Enterprises of Luiliang City of Shanxi Province", "Outstanding Entrepreneur of Private Enterprise of Shanxi Province", "Young Leader of Special Technology of Luiliang City of Shanxi Province", "Outstanding Person in Pushing Relief from Poverty for the Society", "Role Model for Labour in Shanxi Province", "Medalist of Labour Day in Shanxi Province", "Ethical Role Model", etc. Mr. Zhao holds a Master degree in Enterprise Management specializing in Industrial Economics awarded by the Graduate School of China Institute of Social Science (中國社會科學院).

Mr. Lau Yu, aged 42, was appointed as executive Director on 22 September 2008. He is also the chief executive officer of the Company. Mr. Lau has over 17 years of solid experience in international trading of mineral resources and metals, including coal, coke, iron ore and steel. With his extensive experience in the trading of coke and metallurgy, Mr. Lau has established strong relationships with customers in India, Australia, South Africa, Venezuela and Brazil. Mr. Lau is the chief executive officer and executive director of Abterra Limited, a company listed in the SGX. He is also the chief executive officer and a director of GNR, a substantial shareholder of Abterra Limited. Mr. Lau holds a Bachelor of Business Administration degree from the School of Finance in University of Hawaii in the United States of America. With his strong financial background, he has made various good financial arrangements for both Abterra Limited and GNR. Mr. Lau is currently a director of Abterra HK and Loudong PRC, both are subsidiaries of the Company.

Mr. Ng Tze For, aged 49, was appointed as executive Director on 11 September 2008. Mr. Ng has more than 20 years experience in banking, corporate finance, business development and strategy planning for a number of international banks and listed companies in Hong Kong, Beijing and Shanghai. Mr. Ng graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree and obtained a Master Degree in Business Administration from City University of Hong Kong. Mr. Ng was an executive director of Lee Kee Holdings Limited (stock code: 637), of which the shares are listed on the main board of Stock Exchange, from 14 September 2006 to 4 July 2008.

Miss Li Xiao Juan, aged 29, was appointed as executive Director on 30 March 2009. She is currently the deputy general manager of Loudong PRC, a subsidiary of the Company, and is mainly responsible for the corporate finance of Loudong PRC. Before her appointment as the deputy general manager, she was the deputy head of Finance of Loudong PRC. Besides, Miss Li is currently the deputy general manager of GNR, one of the substantial shareholders of the Company and a director of the Vendor. Miss Li graduated from Fu Dan University (復旦大學) in the PRC with a Bachelor's degree in Economics and subsequently obtained a Master of Science degree in Investments from the University of Birmingham in the United Kingdom.

Independent Non-executive Directors

Mr. Cheung Siu Chung, aged 34, was appointed as independent non-executive Director, audit committee member and remuneration committee member of the Company on 30th December 2008. Mr. Cheung holds a bachelor of laws degree (LLB) from University of London, a postgraduate certificate in laws (PCLL) from University of Hong Kong and a master of laws (Chinese and Comparative Law) (LLM) from City University of Hong Kong. Mr. Cheung is a solicitor of The Law Society of Hong Kong and the affiliate of The Association of Chartered Certified Accountants (ACCA). Having worked in law firms and professional financial and accounting firms for more than 10 years, Mr. Cheung possesses extensive experience in handling financial and accounting matters and dealing with legal matters. Mr. Cheung is currently an independent non-executive director of B M Intelligence International Limited (stock code: 8158) since 16 July 2007. In addition, he was a non-executive director of Tiger Tech Holdings Limited (stock code: 8046) from 11 July 2007 to 21 November 2008.

Mr. Li Xiao Long, aged 49, was appointed as independent non-executive Director, audit committee member and remuneration committee member of the Company with effect from 20 February 2009. Mr. Li is currently the managing director of Fei&Long Consulting and Handels GmbH in Germany where he provides consultation to clients on international trade. His clients are mainly machinery manufacturers in Europe having business with Chinese companies. His previous employments included managerial positions in a mineral resources company in Beijing and some insurance companies in the PRC. With his valuable experience in international business, in 2006 he was appointed as the Economic Adviser to the Development and Reformation Committee of Shanxi Province in the PRC (中國山西省發展改革委員會).

Ms. Choy So Yuk, JP, aged 59, was appointed as independent non-executive Director, audit committee member and remuneration committee member of the Company with effect from 5 June 2009. She obtained her Bachelor of Science and Master of Philosophy Degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a wide variety of political, social and academic positions, such as a Delegate of the National People's Congress of China, a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference, and a director of Fujian Middle School. Ms. Choy was a member of the Legislative Council in Hong Kong from 1998 to 2008. Ms. Choy is currently an independent non-executive director of Huafeng Group Holding limited (stock code: 364) since its listing on the Stock Exchange on 30 August 2001.

Company Secretary

Mr. Kwok Kam Tim, aged 33, joined the Company in 2008 and was appointed the company secretary and authorized representative of the Company with effect from 9 February 2010. He is an associate member of The Association of Chartered certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Kwok holds a Bachelor of Art degree in Accounting from Hong Kong Polytechnic University, and a Bachelor of Engineering degree from The University of Hong Kong Science and Technology. He had worked in an international accounting firm and has over 8 years of experience in accounting, auditing and financial management. Currently, Mr. Kwok is an independent non-executive director of Ming Kei Energy Holdings Limited (stock code: 8239), the shares of which are listed on the growth enterprise market of the Stock Exchange.

(11) MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The head office and principal place of business in Hong Kong of the Company is at Unit B, 12th Floor, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary of the Company is Mr. Kwok Kam Tim. Mr. Kwok is an associate member of The Association of Chartered Certified Accountant and an associate member of the Hong Kong Institute of Certified Public Accountants.

(e) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

(12) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit B, 12th Floor, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong, during normal business hours on any Business Day, from the date of this circular up to 7 July 2010:

(a) the memorandum of association and bye-laws of the Company;

(b) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 in this circular;

(c) the letter of advice from INCU to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 23 to 49 in this circular;

(d) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix VI

(e) the written consents of the experts referred to in the paragraph headed "Experts and Consent" in this appendix VI

(f) the annual reports of the Company for each of the two financial years ended 31 December 2008 and 31 December 2009;

(g) the accountants' report on the Target Group prepared by E&Y, the text of which is set out in appendix II to this circular;

(h) the accountants' report on the Loudong PRC prepared by E&Y, the text of which is set out in appendix III to this circular;

(i) the accountants' report prepared by E&Y in respect of the unaudited pro forma financial information of the Enlarged Group as set out in appendix V to this circular; and

(j) this circular.

LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED
樓東俊安資源(中國)控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 988)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of the shareholders of Loudong General Nice Resources (China) Holdings Limited (the "**Company**") will be held at Lingnan Club, 13th Floor, On Lok Yuen Building, 25 Des Voeux Road Central, Hong Kong on Wednesday, 7 July 2010 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional agreement (the "**Agreement**") dated 9 November 2009 and the supplemental agreement (the "**Supplemental Agreement**") dated 25 May 2010 and entered into between Abterra Coal and Coke Limited, an indirect wholly-owned subsidiary of the Company, as purchaser and Hing Lou Resources Limited (the "**Vendor**") as vendor in relation to the sale and purchase of 50,000 shares of US$1.00 each (the "**Sale Shares**") in the share capital of General Nice-Loudong Coal & Coke Limited (the "**Target**"), representing its entire issued share capital for a total consideration of HK$600,000,000 (a copy of the Agreement and the Supplemental Agreement are marked "A" and "B" respectively and produced to the SGM and signed by the chairman of the SGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

(b) the issue of the convertible bonds (the "**Convertible Bonds**") in the principal amount of HK$250,000,000 by the Company to the Vendor or its nominee(s) pursuant to the terms and conditions of the Agreement be and is hereby approved;

(c) the allotment and issue of new ordinary shares (the "**Conversion Shares**") of HK$0.01 each in the share capital of the Company upon exercise of the conversion rights attaching to the Convertible Bonds pursuant to the terms of the Convertible Bonds be and is hereby approved;

(d) the issue of the promissory note (the "Promissory Note") in the principal amount of HK$60,000,000 by the Company to the Vendor or its nominee (s) pursuant to the terms and conditions of the Supplemental Agreement be and is hereby approved; and

(e) any one or more director(s) of the Company (the "**Directors**") be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal) which he/she/ they consider necessary or expedient to give effect to the Agreement, the Supplemental Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Bonds, the allotment and issue of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds and the issue of the Promissory Note."

Yours faithfully
For and on behalf of
the board of Directors of
Loudong General Nice Resources (China) Holdings Limited
Lau Yu
Executive Director

Hong Kong, 21 June 2010

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit B, 12th Floor, Lippo Leighton Tower
103 Leighton Road
Causeway Bay
Hong Kong

Notes:

1. Any member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy must be duly lodged at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the SGM or any adjourned meeting.

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.