**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares of Hidili Industry International Development Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.



Hidili 恒鼎

**Hidili Industry International Development Limited**

**恒鼎實業國際發展有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 01393)

# MAJOR TRANSACTIONS IN RELATION TO THE CAPITAL INJECTIONS BY HUANENG TRUST TO CERTAIN SUBSIDIARIES OF THE COMPANY AND SHARE TRANSFERS

25 June 2013

# CONTENTS

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

| | |
|---|---|
| "Board" | the board of Directors |
| "Buy Back Consideration" | collectively, the consideration payable by Hidili China to buy back the Target Equity Interest of the Target Subsidiaries pursuant to the terms of Share Transfer Agreements |
| "Capital Injection Agreements" | collectively, eight capital injection agreements dated 28 August 2012 entered into among the Target Subsidiaries, Immediate Shareholders and Huaneng Trust in respect of the increase in the share capital of the Target Subsidiaries by Huaneng Trust |
| "Capital Injections" | the injections of capital by Huaneng Trust into the Target Subsidiaries pursuant to the Capital Injection Agreements |
| "Company" | Hidili Industry International Development Limited 恒鼎實業國際發展有限公司, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange |
| "connected person(s)" | shall have the meaning given to it under the Listing Rules |
| "Consulting Service Agreements" | collectively, eight consulting service agreements dated 28 August 2012 entered into between the Target Subsidiaries and Huaneng Trust for the provision of financial consulting service to the Target Subsidiaries for a term of two years |
| "controlling shareholder(s)" | shall have the meaning given to it under the Listing Rules |
| "Director(s)" | director(s) of the Company |
| "Equity Transfer Agreements" | collectively, 14 equity transfer agreements dated 22 and 23 May 2013 entered into among the Immediate Shareholders and Huaneng Trust in respect of the buy back of the Target Equity Interest (other than Panzhihua Yanjiang) |
| "Fuyuan Dahe" | 富源縣大河青坪煤業有限公司 (Fuyuan County Dahe Qingping Coal Industry Co., Ltd.*), a company established in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |

| | |
|---|---|
| "Fuyuan Jintai" | 富源縣錦泰煤業有限公司 (Fuyuan County Jintai Coal Industry Co., Ltd.*), a company established in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "Fuyuan Kunyuan" | 富源縣坤源煤業有限公司 (Fuyuan County Kunyuan Coal Industry Co., Ltd.*), a company established in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "Fuyuan Tonghe" | 富源縣通和煤業有限公司 (Fuyuan County Tonghe Coal Industry Co., Ltd.*), a company established in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "Fuyuan Xiangda" | 富源縣祥達煤礦有限公司 (Fuyuan County Xiangda Coal Mine Co., Ltd.*), a company established in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "Group" | the Company and its subsidiaries |
| "Hidili China" | 恒鼎實業(中國)集團有限公司 (Hidili Industry (China) Group Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Huaneng Trust" | 華能貴誠信托有限公司 (Huaneng Guicheng Trust Co., Ltd.*), a company established in the PRC with limited liability |
| "IFRS" | International Financial Reporting Standards, as published by the International Accounting Standards Board, as amended from time to time |
| "Immediate Shareholders" | collectively, the immediate shareholders of the Target Subsidiaries before the Capital Injections |
| "Independent Valuer" | 北京天健興業資產評估有限公司 (Beijing Pan-China Assets Appraisal Co. Ltd.*), a valuer which is independent of the Company and its connected persons |
| "Injection Date" | the date of payment of the Injection Money by Huaneng Trust to the Target Subsidiaries |

| | |
|---|---|
| "Injection Money" | collectively, the amounts injected by Huaneng Trust to the Target Subsidiaries under the Capital Injection Agreements |
| "Latest Practicable Date" | 20 June 2013 June 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular |
| "Liupanshui Hidili" | 六盤水恒鼎實業有限公司 (Liupanshui Hidili Industry Co., Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company |
| "Panzhihua Yanjiang" | 攀枝花市沿江實業有限責任公司 (Panzhihua Yanjiang Industrial Co., Ltd.*), a company incorporated in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "PRC" | the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "PRC GAAP" | the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations, as amended from time to time |
| "Preference Investment Period" | two years starting from the Injection Date |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Sanlian" | Sanlian Investment Holding Limited |
| "Sichuan Hidili" | 四川恒鼎實業有限公司 (Sichuan Hidili Industry Co., Ltd*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company |
| "Share(s)" | share(s) of HK$0.10 each in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Share Pledge" | pledge of certain of the equity interests in the Target Subsidiaries held by certain Immediate Shareholders pursuant to the Share Pledge Agreements |

| | |
|---|---|
| "Share Pledge Agreements" | collectively, eight share pledge agreements dated 28 August 2012 entered into between certain Immediate Shareholders of Target Subsidiaries and Huaneng Trust to pledge the Share Pledge to Huaneng Trust to secure the payment of the Buy Back Consideration by Hidili China to Huaneng Trust throughout the Preference Investment Period |
| "Share Transfer Agreements" | collectively, eight share transfer agreements dated 28 August 2012 entered into among the Target Subsidiaries, Hidili China and Huaneng Trust for the buy back of the Target Equity Interest |
| "Share Transfers" | the buy back of the Target Equity Interest by Hidili China pursuant to the Share Transfer Agreements |
| "Shenzhen Hidili" | 深圳市恒信鼎立商貿有限公司 (Shenzhen City Hidili Commercial and Trading Co., Ltd*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Target Equity Interest" | in relation to each of the Target Subsidiaries, the equity interest to which Huaneng Trust is entitled upon the completion of the Capital Injections |
| "Target Subsidiaries" | collectively, Panzhihua Yanjiang, Yunnan Hidili, Fuyuan Kunyuan, Fuyuan Xiangda, Yunnan Henglong, Fuyuan Dahe, Fuyuan Tonghe and Fuyuan Jintai |
| "Transactions" | the transactions contemplated under the Capital Injections and the Share Transfers |
| "Yunnan Henglong" | 雲南恒隆煤業有限公司 (Yunnan Henglong Coal Industry Co., Ltd*), a company incorporated in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "Yunnan Hidili" | 雲南恒鼎煤業有限公司 (Yunnan Hidili Coal Industry Co., Ltd*), a company incorporated in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company |
| "%" | per cent. |

* *For identification purpose only*

# Hidili Industry International Development Limited
# 恒鼎實業國際發展有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 01393)

*Executive Directors:*
Mr. Xian Yang *(Chairman)*
Mr. Sun Jiankun
Mr. Wang Rong

*Independent non-executive Directors:*
Mr. Chan Chi Hing
Mr. Chen Limin
Mr. Huang Rongsheng

*Registered office:*
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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office:*
16th Floor, Dingli Mansion
No. 81 Renmin Road
Panzhihua
Sichuan 617000
The PRC

25 June 2013

*To the Shareholders*

Dear Sir/Madam,

## MAJOR TRANSACTIONS IN RELATION TO THE CAPITAL INJECTIONS BY HUANENG TRUST TO CERTAIN SUBSIDIARIES OF THE COMPANY AND SHARE TRANSFERS

### INTRODUCTION

Reference is made to the announcement dated 28 August 2012 and 27 September 2012 respectively regarding the major transactions in relation to the Capital Injections by Huaneng Trust into certain subsidiaries of the Company and the Share Transfers, and discloseable transactions in relation to Share Pledge and continuing connected transactions.

The purpose of this circular is to set out further details of the Transactions.

## THE CAPITAL INJECTIONS

On 28 August 2012, the Target Subsidiaries, Immediate Shareholders and Huaneng Trust entered into the Capital Injection Agreements. Pursuant to the Capital Injection Agreements, Huaneng Trust has agreed to inject an aggregate of RMB1,500 million (approximately HK$1,829 million) as share capital in cash to the respective Target Subsidiaries for equity interest ranging from 34% to 41%.

### Principal terms

The principal terms of each of the Capital Injection Agreements are as follows:

| Target Subsidiaries | Immediate Shareholders | Equity interest held by Immediate Shareholders before the Capital Injections | Equity interest held by Immediate Shareholders after the Capital Injections | Injection Money payable by Huaneng Trust | Target Equity Interest |
|---|---|---|---|---|---|
| | | % | % | *RMB' million* | % |
| Panzhihua Yanjiang | Sichuan Hidili | 100% | 64% | 370 | 36% |
| Yunnan Hidili | Shenzhen Hidili | 90% | 59.4% | 250 | 34% |
| | Sichuan Hidili | 10% | 6.6% | | |
| Fuyuan Kunyuan | Liupanshui Hidili | 90% | 55.8% | 230 | 38% |
| | Sichuan Hidili | 10% | 6.2% | | |
| Fuyuan Xiangda | Liupanshui Hidili | 70% | 41.3% | 60 | 41% |
| | Sichuan Hidili | 30% | 17.7% | | |
| Yunnan Henglong | Liupanshui Hidili | 80% | 47.2% | 90 | 41% |
| | Sichuan Hidili | 20% | 11.8% | | |
| Fuyuan Dahe | Shenzhen Hidili | 90% | 55.8% | 270 | 38% |
| | Mr. Peng Zhongqiang | 5.7% | 3.52% | | |
| | Mr. Chen Laoling | 3.8% | 2.36% | | |
| | Mr. Tian Jinyi | 0.4% | 0.25% | | |
| | Mr. Guo Minli | 0.1% | 0.07% | | |
| Fuyuan Tonghe | Liupanshui Hidili | 90% | 54% | 140 | 40% |
| | Sichuan Hidili | 10% | 6% | | |
| Fuyuan Jintai | Liupanshui Hidili | 80% | 48.8% | 90 | 39% |
| | Sichuan Hidili | 20% | 12.2% | | |
| | | | | 1,500 | |

**Conditions for the completion of the Capital Injections**

Under the Capital Injection Agreements, Huaneng Trust has agreed to invest the Injection Money into the Target Subsidiaries subject to, among others, the fulfilment of the following conditions:

1. Huaneng Trust having raised adequate funding to finance the Capital Injections;

2. the Capital Injection Agreements having been executed;

3. Huaneng Trust having completed all the necessary financial and legal due diligence on the Target Subsidiaries and having obtained its own internal approval;

4. all the Immediate Shareholders of the Target Subsidiaries have agreed to give up the pre-emptive rights to allot new share capital of the Target Subsidiaries;

5. the Capital Injections to Target Subsidiaries having been approved by their respective Immediate Shareholders in the respective shareholders' meetings;

6. the amendments to the respective memorandum and articles of association of the Target Subsidiaries having been completed and such amendments having been approved by Huaneng Trust;

7. the Target Subsidiaries and their respective Immediate Shareholders are not in breach of any provisions under the Capital Injection Agreements or any agreements entered into with Huaneng Trust; and

8. subject to the Shareholders' approval to be obtained by the Company and in compliance with the applicable Listing Rules.

There is no long stop date for the fulfilment of the above conditions precedent and all these conditions precedent have been fulfilled other than the condition precedent referred to in item 8 above, which Huaneng Trust had waived.

Completion of the Capital Injections had taken place and the Injection Money had been received.

**Basis of determining the Injection Money and the portion of equity interest entitled to Huaneng Trust**

The Injection Money was determined with reference to the valuation of the net asset value of the Target Subsidiaries as at 30 April 2012 as appraised by the Independent Valuer appointed by Huaneng Trust that possesses relevant professional qualifications. The valuation of the net asset value of the Target Subsidiaries as at 30 April 2012 was as follows:

| **Target Subsidiaries** | **Valuation of the net asset value as at 30 April 2012** *RMB' million* |
|---|---|
| Panzhihua Yanjiang | 646.4 |
| Yunnan Hidili | 437.3 |
| Fuyuan Kunyuan | 409.6 |
| Fuyuan Xiangda | 101.6 |
| Yunnan Henglong | 226.4 |
| Fuyuan Dahe | 498.3 |
| Fuyuan Tonghe | 246.6 |
| Fuyuan Jintai | 155.6 |

The valuations of the Target Subsidiaries' net asset value as at 30 April 2012 were much higher than the valuations of the Target Subsidiaries' net asset value as at 31 December 2011 as disclosed on page 15 of this circular because the mining rights and structures as at 31 December 2011 were stated at historical cost whereas the mining rights and structures as at 30 April 2012 were revalued based on a market comparable approach with reference to the estimated recoverable reserves of the coal mines.

**Completion of the Capital Injections**

Within seven business days from the receipt of the Injection Money from Huaneng Trust, the Target Subsidiaries shall immediately engage an authorised capital certification company to examine the Injection Money and issue capital certification report (the "**Certification Report(s)**") to each of the Target Subsidiaries.

The Target Subsidiaries shall issue the capital certifications within seven business days from the date of issue of the Certificate Reports to Huaneng Trust and shall complete all the filings regarding the amendments to holders of equity interests, registered capital, directors and memorandum and articles of association to the Administration for Industry and Commerce in the PRC within 15 business days from the date of issue of the Certification Reports.

Immediately after completion of the Capital Injections, each of the board of directors of the Target Subsidiaries shall comprise five directors, of which two directors are to be appointed by Huaneng Trust. Huaneng Trust will not be involved in the daily operation of the Target Subsidiaries. Sichuan Hidili, the ultimate holding company of the Target Subsidiaries, is responsible for the daily operation of the Target Subsidiaries and will guarantee the quarterly raw coal production volume and net profit (as set out in the respective Capital Injection Agreements) throughout the two years' period after the Injection Date, (collectively, the "**Guarantee**") details of which are set out below:

**In respect of Panzhihua Yanjiang:**

A quarterly raw coal production volume ranging from 30,800 tonnes to 64,500 tonnes and a quarterly profit of not less than RMB2.46 million.

**In respect of Yunnan Hidili:**

A quarterly raw coal production volume ranging from 18,800 tonnes to 52,500 tonnes and a quarterly profit of not less than RMB1.50 million.

**In respect of Fuyuan Kunyuan:**

A quarterly raw coal production volume ranging from 7,500 tonnes to 20,000 tonnes and a quarterly profit of not less than RMB0.60 million.

**In respect of Fuyuan Xiangda:**

A quarterly raw coal production volume ranging from 15,000 tonnes to 45,000 tonnes and a quarterly profit of not less than RMB1.20 million.

**In respect of Yunnan Henglong:**

A quarterly raw coal production volume ranging from 15,000 tonnes to 30,000 tonnes and a quarterly profit of not less than RMB1.20 million.

**In respect of Fuyuan Dahe:**

A quarterly raw coal production volume ranging from 16,500 tonnes to 50,000 tonnes and a quarterly profit of not less than RMB1.32 million.

**In respect of Fuyuan Tonghe:**

A quarterly raw coal production volume ranging from 11,250 tonnes to 30,000 tonnes and a quarterly profit of not less than RMB0.90 million.

**In respect of Fuyuan Jintai:**

A quarterly raw coal production volume ranging from 13,500 tonnes to 27,000 tonnes and a quarterly profit of not less than RMB1.08 million.

The quarterly profit of the Target Subsidiaries will be unaudited and reported in PRC GAAP.

In the event that the Guarantees are not met, Huaneng Trust can exercise its discretion to extend the period for the fulfilment of such Guarantees (the "**Extended Period**"). In determining whether the Guarantees will be met, the assessment will be carried out on a quarterly basis based on the respective quarterly production volume/profit. It is subject to the discretion of Huaneng Trust to consider the Guarantees of all Target Subsidiaries as a whole in a particular quarter and to extend the period for the fulfillment. The Extended Period will fall within the Preference Investment Period. If the Target Subsidiaries cannot meet the Guarantees within the Extended Period granted by Huaneng Trust, Huaneng Trust can at its discretion dispose of the Target Equity Interest and such disposal should be in compliance with the relevant laws. The Guarantee arrangement will not affect the buy-back arrangement under the Share Transfers.

At any time within two years from the Injection Date, if there is any material changes which may affect the Target Subsidiaries to fulfil the Guarantees, all parties agree to adjust the Guarantees accordingly. The "material changes" imply any changes from operation of the Target Subsidiaries that may constitute failure to fulfil the Guarantees and as a result may lead to default in the completion of the Share Transfers or payment of the quarterly premium payable.

Huaneng Trust has been informed of the suspension of production at the Group's coal mines in Panzhihua and understands that some of the guarantees as mentioned above are not likely to be met. Huaneng Trust has agreed not to impose any penalty on the Group if the Guarantees are not fulfilled.

Pursuant to the Capital Injection Agreements, Huaneng Trust will have pre-emption rights to acquire further interests in the Target Subsidiaries and Huaneng Trust will have further rights to dispose of its equity interests in the Target Subsidiaries, subject to the occurrence of the following events:

1. the Target Subsidiaries are unable to meet the Guarantees, below 80% of either the respective quarterly raw coal production volume or quarterly profit, in a particular quarter or even within the Extended Period without any satisfactory explanation to Huaneng Trust;

2. the Target Subsidiaries are involved in any legal proceeding or arbitration with an amount of over RMB10 million;

3. the equity interests of the Target Subsidiaries are or exposed to be frozen or foreclosed by government authorities;

4. an accident occurs in the coal mines of the Target Subsidiaries;

5. the coal mines of the Target Subsidiaries suspend production for more than 180 days;

6. the Target Subsidiaries are subject to any penalty imposed by the government authorities of over RMB3 million; or

7. any adverse event affecting the daily operations of Group which will result in default in repayment under the Share Transfer Agreements.

## THE SHARE TRANSFERS

On 28 August 2012, the Target Subsidiaries, Hidili China and Huaneng Trust entered into eight share transfer agreements (collectively, the "**Share Transfer Agreements**"). Pursuant to the Share Transfer Agreements, Hidili China has agreed to buy back all the Target Equity Interest injected by Huaneng Trust under the Capital Injection Agreements at the end of the Preference Investment Period by cash.

### Payment of the Buy Back Consideration

Pursuant to the Share Transfer Agreements, the Buy Back Consideration of the respective Target Equity Interest comprises the Injection Money and a premium. Hidili China shall settle the Injection Money in respect of the buy back of the relevant Target Equity Interest at the end of the Preference Investment Period and the premium payable by nine quarterly installments starting from the Injection Date as follows:

| | **Amount of the premium payable** |
|---|---|
| First installment | 1.8% of the Injection Money |
| Second to fifth quarterly installment | 9% per annum of the Injection Money |
| Sixth to ninth quarterly installment | 10.8% per annum of the Injection Money |

The basis of the Buy Back Consideration was determined with reference to Huaneng Trust's internal rate of return on its trust investment.

Any dividends distributed and received by Huaneng Trust from the Target Subsidiaries during the Preference Investment Period can be used to reduce the Injection Money to be payable at the end of the Preference Investment Period by Hidili China.

After six months from the Injection Date and at any time during the Preference Investment Period, Hidili China can buy back all the Target Equity Interest from Huaneng Trust with written consent from Huaneng Trust. Subject to the written consent of Huaneng Trust and to the extent that Hidili China will buy back all the Target Equity Interest from Huaneng Trust, the Company will issue further announcement in compliance with the Listing Rules as and when appropriate.

If Hidili China elects to buy back all the Target Equity Interest from Huaneng Trust during the Preference Investment Period, the amount of premium payable will be based on the premium specified above. Hidili China is not required to pay the accelerated amount of the nine quarterly installments if Hidili China elects to buy back all the Target Equity Interest from Huaneng Trust during the Preference Investment Period. Hidili China is only liable to the premium payable at respective rate on time apportionment basis.

The completion of the Share Transfer Agreements is subject to the Shareholders' approval and in compliance with the applicable Listing Rules.

**Equity Transfer Agreements**

The Immediate Shareholders and Huaneng Trust entered into the Equity Transfer Agreements on 22 May 2013 and 23 May 2013 in respect of the buy back of the Target Equity Interest (other than Panzhihua Yanjiang).

The consideration of the Equity Transfer Agreements is the same as the Buy Back Consideration in respect of the Target Equity Interest (other than Panzhihua Yanjiang) as set out in the Share Transfer Agreements in respect of which a written shareholder's approval of the Company had been obtained on 13 September 2012 from Sanlian Investment Holding Limited which held 1,100,674,000 Shares (representing approximately 53.28% of the existing issued share capital of the Company as at 13 September 2012) for the entry of the Share Transfer Agreements.

The principal terms of the Equity Transfer Agreements are set out below:

| Target Subsidiaries | Equity interest held by Huaneng Trust before signing of the Equity Transfer Agreements | Equity interest to be bought back by the Group from Huaneng Trust pursuant to the Equity Transfer Agreements | Buy Back Consideration payable by the Group to Huaneng Trust |
|---|---|---|---|
| | % | % | *RMB'000* |
| Yunnan Hidili | 34% | 34% | 270,619 |
| Fuyuan Kunyuan | 38% | 38% | 248,918 |
| Fuyuan Xiangda | 41% | 41% | 64,935 |
| Yunnan Henglong | 41% | 41% | 97,402 |
| Fuyuan Dahe | 38% | 38% | 289,639 |
| Fuyuan Tonghe | 40% | 40% | 151,515 |
| Fuyuan Jintai | 39% | 39% | 97,402 |
| | | | 1,220,430 |

As the Group will not buy back the equity interest of Panzhihua Yanjiang held by Huaneng Trust pursuant to the Equity Transfer Agreements, the outstanding Buy Back Consideration (the "**Outstanding Buy Back Consideration**") for the Group to buy back the equity interest of Panzhihua Yanjiang will be approximately RMB374 million. The Company intends to settle the Outstanding Buy Back Consideration.

## ACCOUNTING IMPACT AFTER THE CAPITAL INJECTIONS AND SHARE TRANSFERS

The Company will continue to consolidate or take equity of the assets, liabilities and income of the Target Subsidiaries using the percentage of equity interests held by the Immediate Shareholders before the Capital Injections into the Group's financial statements. This accounting treatment has been confirmed by the Company's auditors and is in accordance with the requirement of IFRS. No gain or loss will arise as a result of the Capital Injections. The Capital Injections contemplated under the Capital Injection Agreements will be regarded as borrowings and the premium payable under the Share Transfer Agreements during the Preference Investment Period will be charged to the income statement.

## FINANCIAL EFFECT OF THE CAPITAL INJECTIONS AND SHARE TRANSFERS

Upon the completion of the Capital Injections, the aggregate amount of RMB1,500 million injected by Huaneng Trust to the respective Target Subsidiaries will be regarded as borrowing and there will be no effect on the Group's earnings and assets. The premium payable under the Share Transfer Agreements during the Preference Investment Period will be charged to earnings of the Group. The Group's liabilities will be discharged by RMB1,500 million after the Share Transfers and there will be no effect on the Group's assets for the Share Transfers. The Company will continue to consolidate or take equity of the assets, liabilities and income of the Target Subsidiaries using the percentage of equity interests held by the Immediate Shareholders before the Capital Injections into the Group's financial statements.

## THE SHARE PLEDGE

### Shares pledged by certain Immediate Shareholders

On 28 August 2012, certain Immediate Shareholders of Target Subsidiaries entered into the Share Pledge Agreements with Huaneng Trust where they agreed to pledge certain of their equity interests in the Target Subsidiaries to Huaneng Trust to secure the payment of the Buy Back Consideration by Hidili China to Huaneng Trust throughout the Preference Investment Period. The equity interests pledged pursuant to the Share Pledge Agreements are as follows:

| **Immediate Shareholders** | **Equity interest pledged** |
|---|---|
| Sichuan Hidili | 36% of Panzhihua Yanjiang |
| Liupanshui Hidili | 38% of Fuyuan Kunyuan |
| | 41% of Fuyuan Xiangda |
| | 41% of Yunnan Henglong |
| | 40% of Fuyuan Tonghe |
| | 39% of Fuyuan Jintai |
| Shenzhen Hidili | 34% of Yunnan Hidili |
| | 38% of Fuyuan Dahe |

Upon completion of the Share Transfer Agreements and payment of the Buy Back Consideration, Huaneng Trust shall proceed to discharge the Share Pledge accordingly.

## UNDERTAKING BY CONTROLLING SHAREHOLDER

On 28 August 2012, Mr. Xian Yang, the Chairman and the controlling shareholder of the Company and his spouse, Ms. Qiao Qian, have undertaken to Huaneng Trust to guarantee the payment of the Buy Back Consideration in the event of default of payment by Hidili China.

## INFORMATION OF THE GROUP, THE TARGET SUBSIDIARIES, HIDILI CHINA, THE IMMEDIATE SHAREHOLDERS AND HUANENG TRUST

### The Group

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability on 1 September 2006 and has been listed on the Stock Exchange since 21 September 2007.

The Group is one of the largest integrated coal enterprises in South West China and is principally engaged in coal mining and processing and sales of clean coal, coke, alloy pig iron and related by-products.

### Target Subsidiaries

The principal activities of each of the Target Subsidiaries are coal mining and operating coal mines in Guizhou and Yunnan provinces in the PRC, respectively. The coal mines under the operation of the Target Subsidiaries are as follows:

| Target Subsidiaries | Coal mines under operation | Location of the coal mines |
|---|---|---|
| Panzhihua Yanjiang | Tianbao Coal Mine | Sichuan, PRC |
| Yunnan Hidili | Yanhe Coal Mine | Yunnan, PRC |
| Fuyuan Kunyuan | Jianglang Coal Mine | Yunnan, PRC |
| Fuyuan Xiangda | Xiangda No. 1 Coal Mine | Yunnan, PRC |
| Yunnan Henglong | Zude Coal Mine | Yunnan, PRC |
| Fuyuan Dahe | Qingping Coal Mine | Yunnan, PRC |
| Fuyuan Tonghe | Xingjian Coal Mine | Yunnan, PRC |
| Fuyuan Jintai | Xingji Coal Mine | Yunnan, PRC |

The audited results and net assets value of the Target Subsidiaries for the two years ended 31 December 2011 prepared in accordance with accounting principles generally accepted in the PRC are as follows:

**Year ended 31 December 2011**

| **Target Subsidiaries** | **Profit (Loss) before taxation** | **Profit (Loss) after taxation** | **Net assets (liabilities)** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Panzhihua Yanjiang | 152,463 | 133,405 | 595,185 |
| Yunnan Hidili | 23,288 | 23,288 | 132,215 |
| Fuyuan Kunyuan | (3,019) | (3,053) | 280,511 |
| Fuyuan Xiangda | 14,468 | 13,750 | 28,248 |
| Yunnan Henglong | 25 | 18 | 4,240 |
| Fuyuan Dahe | 73,660 | 62,142 | 368,485 |
| Fuyuan Tonghe | (7,999) | (8,083) | 95,705 |
| Fuyuan Jintai | (73) | (73) | (709) |

**Year ended 31 December 2010**

| **Target Subsidiaries** | **Profit (Loss) before taxation** | **Profit (Loss) after taxation** | **Net assets (liabilities)** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Panzhihua Yanjiang | 83,856 | 77,567 | 461,780 |
| Yunnan Hidili | (29,021) | (29,021) | 108,928 |
| Fuyuan Kunyuan | (5,428) | (5,428) | 283,564 |
| Fuyuan Xiangda | 19,396 | 16,283 | 14,743 |
| Yunnan Henglong | (5,718) | (5,778) | 4,222 |
| Fuyuan Dahe | 19,143 | 17,378 | 308,912 |
| Fuyuan Tonghe | (9,357) | (9,357) | 103,545 |
| Fuyuan Jintai | (5,577) | (5,636) | (636) |

**Hidili China**

Hidili China is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Its principal activity is investment holding.

**Liupanshui Hidili**

Liupanshui Hidili is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Its principal activities are coal mining and investment holding.

**Shenzhen Hidili**

Shenzhen Hidili is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Its principal activity is investment holding.

**Sichuan Hidili**

Sichuan Hidili is a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company. Its principal activities are coal mining and investment holding.

**Mr. Peng Zhongqiang**

彭仲強先生 (Mr. Peng Zhongqiang*), one of the Immediate Shareholders of Fuyuan Dahe, holds 5.7% equity interest before the Capital Injections.

**Mr. Chen Laoling**

陳老令先生 (Mr. Chen Laoling*), one of the Immediate Shareholders of Fuyuan Dahe, holds 3.8% equity interest before the Capital Injections.

**Mr. Tian Jinyi**

田金益先生 (Mr. Tian Jinyi*), one of the Immediate Shareholders of Fuyuan Dahe, holds 0.4% equity interest before the Capital Injections.

**Mr. Guo Minli**

郭敏力先生 (Mr. Guo Minli*), one of the Immediate Shareholders of Fuyuan Dahe, holds 0.1% equity interest before the Capital Injections.

**Huaneng Trust**

Huaneng Trust is a limited liability company established in the PRC and is a subsidiary of 中國華能集團公司 (China Huaneng Group Company*). Its principal activity is trust investment with registered capital of RMB2,000 million.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Huaneng Trust and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

**REASONS FOR THE CAPITAL INJECTIONS AND SHARE TRANSFERS**

The Company intended to restructure its loan and debt borrowings by way of the repayment of the outstanding amount under the convertible bonds issued by the Company in 2010 and substituting one-year term loans with medium to long term borrowings. In view of this, the Company had considered various refinancing alternatives, including new bank borrowings from financial institutions in the PRC and had approached various financial institutions in the PRC for the grant of medium to long term banking facilities. However, these financial institutions will normally (i) grant such medium to long term banking facilities for capital expenditure purposes or with limitation in the use of proceeds and (ii) take a long time for processing, such as approval and execution before drawdown. Given the above reasons, the Company had entered into discussion with Huaneng Trust for alternative funding source which resulted in the Capital Injections and the Share Transfers in order to secure the repayment of our convertible bonds due in January 2013. The interest rate charged by Huaneng Trust under the Share Transfers was comparable with other trust loan offered to the Company in August 2012 (of which the Company did not enter into any loan arrangements with these institutions other than Huaneng Trust). In any event, the Company is still negotiating with financial institutions for other refinancing alternatives. The Company has used the entire amount injected by Huaneng Trust for repayment of borrowings.

As disclosed above, the Injection Money under the Capital Injections was determined based on the valuation of the net asset value of the Target Subsidiaries (which Huaneng Trust was entitled to) as at 30 April 2012 of approximately RMB1,020 million. As such, there is a shortfall of approximately RMB480 million, being the difference between the Injection Money of RMB1,500 million and the above aggregate net asset value of the Target Subsidiaries (which Huaneng Trust was entitled to) as at 30 April 2012 of approximately RMB1,020 million.

Moreover, based on the net assets value of the Target Subsidiaries as at 30 April 2012, the aggregate net asset value of the Target Subsidiaries to which Huaneng Trust is entitled and the Share Pledge amounted to approximately RMB2,691 million, which represents a discount of 44% when compared to the total Capital Injections of RMB1,500 million. Such discount is regarded as comparable to the ordinary bank borrowings of 40% to 60%.

In view of the above and as security for the performance of the Company's obligations to buy back the Share Transfers at the Buy Back Consideration under the Share Transfer Agreements, the Share Pledge, together with the undertaking given by our controlling shareholder in favour of Huaneng Trust, were created in favour of Huaneng Trust as security.

Hidili China may buy back all the Target Equity Interest from Huaneng Trust with written consent from Huaneng Trust six months from the Injection Date and at any time during the Preference Investment Period pursuant to the terms of Share Transfers. If the Company were to buy back all the Target Equity Interest from Huaneng Trust upon maturity, the finance cost involved is expected to be approximately 13% per annum. The Company may buy back the Target Equity Interest when it has other refinancing alternatives with an estimated average interest rate of approximately 5% to 6% per annum where the refinancing cost of the Company is expected to be approximately 9.5% on average in the first year and reduced to 5% to 6% in the second year of such refinancing. The interest rates of our existing ordinary bank borrowings ranging from 6.6255% to 8.528%. Such refinancing cost is therefore comparable with 8.528%, being the highest interest rate charged by the Company's existing borrowings.

The Directors believe that the Capital Injections can strengthen the Group's cashflow and secure for the repayment of the short-term borrowings.

In view of the above, the Directors (including the independent non-executive Directors) believe that the terms and conditions of the Capital Injection Agreements and the Share Transfer Agreements are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## IMPLICATION OF THE LISTING RULES

### The Capital Injections and the Share Transfers

As the applicable percentage ratios for the Capital Injections will exceed 25% but are less than 75% and the applicable percentage ratios for the Share Transfers will exceed 25% but are less than 100%, each of the Capital Injections and the Share Transfers constitutes a major transaction for the Company under the Listing Rules. Therefore, they are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Under the Listing Rules, the completion of the Capital Injections and the Share Transfers is subject to Shareholders' approval.

On 13 September 2012, a written shareholder's approval has been obtained from Sanlian which held 1,100,674,000 Shares (representing approximately 53.28% of the existing issued share capital of the Company as at 13 September 2012) for the entering into of the Capital Injections and the Share Transfers.

No Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Transactions.

### Waiver granted

In addition, as the Target Subsidiaries are engaged in coal mining and operating coal mines and the Share Transfers are deemed to be major transactions involving an acquisition of the Target Equity Interest, the Share Transfers would constitute Relevant Notifiable Transactions under Rule 18.10 of the Listing Rules. As such, the Share Transfers are subject to the requirements under Rule 18.09 of the Listing Rules. The Company has applied for, and the Stock Exchange has granted, a waiver to the Company from strict compliance with Rule 18.09 of the Listing Rules on the grounds that:

(a) while the Share Transfers appear to be an "acquisition" of the Target Equity Interest by the Company's subsidiary, Hidili China, the arrangements that have been put in place, are, in substance, reflecting the intention of the Company and Huaneng Trust that:

(i) the various agreements entered into among the parties, including the Capital Injection Agreements and the Share Transfer Agreements, reflect the intention of the parties that the Target Subsidiaries are, and will remain, as the subsidiaries of the Company before and after completion of the Capital Injection Agreements. Despite the Capital Injections and the Share Transfers, the Company will continue to consolidate or take equity interests held by the Immediate Shareholders before the Capital Injections into the Group's financial statements;

(ii) the provision of funds by Huaneng Trust to the Company and the repayment of the funds by way of the buy back of the Target Equity Interest by Hidili China under the Share Transfers; and

(iii) the Capital Injections were merely put in place to facilitate the provision of funds by Huaneng Trust to the Company through the Target Subsidiaries as opposed to a straightforward loan transaction,

and

(b) given that the Target Subsidiaries are and will remain as the subsidiaries of the Company before and after the completion of the Capital Injection Agreements, strict compliance with the requirements of Rule 18.10 of the Listing Rules would be unduly burdensome and impractical as the benefit of the preparation of the Competent Person's Report (as defined in the Listing Rules) and the Valuation Report (as defined in the Listing Rules) as required under Rule 18.10 of the Listing Rules may not justify the additional work, time and expenses that will be incurred by the Company for complying with these requirements.

## RECOMMENDATION

The Board, considers that the terms of the Capital Injections and the Share Transfers and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Directors recommend the Shareholders to vote in favour of the resolutions if the Company were to convene a general meeting for the approval of the Transactions and the transactions contemplated thereunder.

## ADDITIONAL INFORMATION

Your attention is drawn to the further information set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board
**Xian Yang**
*Chairman*

## 1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group (i) for the year ended 31 December 2012 is disclosed on page 40 to 115 of the 2012 annual report of the Company dated 24 May 2013; (ii) for the year ended 31 December 2011 is disclosed on pages 42 to 127 of the 2011 annual report of the Company dated 20 March 2012; and (iii) for the year ended 31 December 2010 is disclosed on pages 40 to 111 of the 2010 annual report of the company dated 29 March 2011.

All these financial statements have been published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.hidili.com.cn).

## 2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 April 2013 (being the latest practicable date for ascertaining information regarding this indebtedness statement), the Group had total outstanding borrowings of approximately RMB9,342 million. the borrowings comprised secured bank and other loans of approximately RMB5,418 million, unsecured bank and other loans of approximately RMB1,430 million, convertible loan notes of approximately RMB6 million and senior notes of approximately RMB2,488 million. The Group's borrowings were secured by (i) certain assets held by the group with aggregate net book values of approximately RMB2,384 million as at 30 April 2013; and (ii) pledge of certain fixed deposits of the group of approximately RMB1,774 million as at 30 April 2013. Save as aforesaid, and apart from intra-group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2013.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into RMB at the rates of the exchange prevailing at the close of business on 30 April 2013.

## 3. SUFFICIENCY OF WORKING CAPITAL

Provided that (i) the Group is able to issue new medium to long term notes to banks and independent third parties in the PRC of not less than RMB2.5 billion; (ii) the Group is successful in renewing short term bank facilities of not less than RMB400 million to long term bank facilities; and (iii) the Group is successful in completing transactions for disposal of certain assets in 2013 as stated in "Financial and Trading Prospects of the Group" below, the Directors confirm that, after taking into account the effect of the Capital Injections and Share Transfers, and the present internal financial resources available to the Group, including internally generated cash flows and the existing banking and credit facilities available, the Group has sufficient working capital for its present requirements in next 12 months from the date of this circular in the absence of unforeseen material circumstances.

## 4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is engaged in mining and sale of coke, raw coal and clean coal. At the Latest Practicable Date, the Group owned 42 coal mines (including 12 mining rights in Sichuan province, 20 mining rights in Guizhou province, 9 mining rights in Yunnan province and 1 exploration right in Yunnan province).

With the coal mining development in Guizhou and Yunnan provinces, turnover and gross profit of the Group for the year ended 31 December 2012 amounted to approximately RMB1,923.6 million and RMB1,074.8 million respectively, recorded a decrease of approximately 32.8% and 39.2% respectively as compared to corresponding period in 2011. The production volume of raw coal amounted to approximately 3.5 million tonnes, representing a decrease of 14.2% as compared to approximately 4.1 million tonnes in the corresponding period in 2011. In this regard, the Group achieved EBITDA of approximately RMB579.1 million, representing a margin of 30.1% during the year ended 31 December 2012.

As a result of the coal mines accident happened in (i) Panzhihua, Sichuan province in August 2012, (ii) Fuyuan county, Yunnan province in December 2012 and (iii) Liupanshui, Guizhou province in January 2013, the production at all coal mines Panzhihua, Fuyuan and Liupanshui were halted for inspection after the accidents. As a result, the production at all the Group's coal mines in Sichuan, Yunnan and Guizhou provinces were suspended. Some coal mines of the Group in Sichuan province have to undergo integration. The Group is currently preparing an integration plan subject to the approval of the PRC government. The Group's remaining coal mines in Sichuan province have to carry out renovation. As at the Latest Practicable Date, the production of two out of five mining regions in Sichuan province and all coal mines in Yunnan and Guizhou provinces was resumed. In this regard, the Group will continue the construction of the coal mines in Guizhou and Yunnan province.

The resumption of production can help generate operating cash flow for the Group's operations. In addition, the Group plans to shrink its debt size and dispose certain assets in 2013 to further improve its liquidity position.

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Panzhihua Yanjiang Industrial Co., Ltd. ("**Panzhihua Yanjiang**") for each of the three years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Panzhihua Yanjiang and certain other subsidiaries of the Company and share transfers.

Panzhihua Yanjiang was established with limited liability in the People's Republic of China (the "**PRC**") on 29 May 2003.

The statutory financial statements of Panzhihua Yanjiang were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Panzhihua Yanjiang for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Panzhihua Yanjiang have prepared the financial statements of Panzhihua Yanjiang for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Panzhihua Yanjiang for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Panzhihua Yanjiang who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Panzhihua Yanjiang as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

## A. FINANCIAL INFORMATION

### Statements of Comprehensive Income

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | 2010 | 2011 | 2012 |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| Revenue | 6 | 128,430,131 | 262,784,116 | 103,799,364 |
| Cost of sales | | (55,478,178) | (77,362,577) | (34,764,275) |
| Gross profit | | 72,951,953 | 185,421,539 | 69,035,089 |
| Other income | | 27,089,790 | 28,440,719 | 31,158,811 |
| Administrative expenses | | (6,583,712) | (8,160,532) | (19,102,255) |
| Finance costs | 7 | (1,905,119) | (12,974,099) | (15,532,028) |
| Profit before tax | | 91,552,912 | 192,727,627 | 65,559,617 |
| Income tax expense | 8 | (5,211,286) | (20,738,228) | (9,046,025) |
| Profit and total comprehensive income for the year | 9 | 86,341,626 | 171,989,399 | 56,513,592 |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 220,877,481 | 295,011,617 | 344,045,424 |
| Deposits | *13* | 16,599,828 | 31,760,728 | 31,760,728 |
| Amount due from immediate holding company | *16* | 182,577,583 | 194,611,474 | 207,438,534 |
| Amounts due from fellow subsidiaries | *16* | 245,869,831 | 262,075,384 | 279,349,064 |
| | | 665,924,723 | 783,459,203 | 862,593,750 |
| CURRENT ASSETS | | | | |
| Inventories | *14* | 2,590,885 | 2,782,948 | 5,729,845 |
| Bills receivables | *15* | — | — | 2,800,000 |
| Other receivables, deposits and prepayments | *13* | 1,949,270 | 6,330,999 | 5,896,711 |
| Tax recoverable | | — | — | 3,114,586 |
| Amount due from immediate holding company | *16* | — | 35,574,861 | 8,896,395 |
| Amounts due from fellow subsidiaries | *16* | 10,091,228 | 39,409,898 | 255,744,475 |
| Bank balances and cash | *17* | 1,382,585 | 739,375 | 1,463,024 |
| | | 16,013,968 | 84,838,081 | 283,645,036 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *18* | 4,796,517 | 13,050,816 | 8,667,652 |
| Other payables and accrued expenses | *19* | 32,268,432 | 26,434,691 | 14,393,387 |
| Amounts due to intermediate holding companies | *16* | — | 1,752,000 | 3,705,055 |
| Amounts due to fellow subsidiaries | *16* | 334,225,103 | 337,494,407 | 212,519,564 |
| Tax payables | | 2,891,142 | 9,352,118 | — |
| | | 374,181,194 | 388,084,032 | 239,285,658 |
| NET CURRENT (LIABILITIES) ASSETS | | (358,167,226) | (303,245,951) | 44,359,378 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 307,757,497 | 480,213,252 | 906,953,128 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *20* | 1,441,689 | 1,908,045 | 2,134,329 |
| NET ASSETS | | 306,315,808 | 478,305,207 | 904,818,799 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *21* | 5,000,000 | 5,000,000 | 7,812,500 |
| Reserves | | 301,315,808 | 473,305,207 | 897,006,299 |
| TOTAL EQUITY | | 306,315,808 | 478,305,207 | 904,818,799 |

## Statements of Changes in Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note (i))* | Future development fund *RMB* *(Note (ii))* | Retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 5,000,000 | 138,896,839 | 11,709,062 | 2,759,175 | 61,609,106 | 219,974,182 |
| Profit and total comprehensive income for the year | — | — | — | — | 86,341,626 | 86,341,626 |
| Transfer | — | — | 5,984,838 | 7,436,621 | (13,421,459) | — |
| At 31 December 2010 | 5,000,000 | 138,896,839 | 17,693,900 | 10,195,796 | 134,529,273 | 306,315,808 |
| Profit and total comprehensive income for the year | — | — | — | — | 171,989,399 | 171,989,399 |
| Transfer | — | — | — | 1,600,513 | (1,600,513) | — |
| At 31 December 2011 | 5,000,000 | 138,896,839 | 17,693,900 | 11,796,309 | 304,918,159 | 478,305,207 |
| Profit and total comprehensive income for the year | — | — | — | — | 56,513,592 | 56,513,592 |
| Transfer | — | — | — | 26,879 | (26,879) | — |
| Capital injection | 2,812,500 | 367,187,500 | — | — | — | 370,000,000 |
| At 31 December 2012 | 7,812,500 | 506,084,339 | 17,693,900 | 11,823,188 | 361,404,872 | 904,818,799 |

*Notes:*

(i) According to the Articles of Association of Panzhihua Yanjiang, Panzhihua Yanjiang is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Panzhihua Yanjiang while Panzhihua Yanjiang can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Panzhihua Yanjiang.

(ii) Pursuant to the relevant regulations in the PRC, Panzhihua Yanjiang is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit before tax | 91,552,912 | 192,727,627 | 65,559,617 |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 3,037,203 | 5,141,059 | 4,665,845 |
| Interest expenses | 1,905,119 | 12,974,099 | 15,532,028 |
| Imputed interest income | (26,493,246) | (28,239,444) | (30,100,740) |
| Interest income | (181,759) | (27,011) | (503,371) |
| Loss on disposal of property, plant and equipment | 5,182 | — | — |
| Provision for restoration and environmental costs | 276,514 | 466,356 | 226,284 |
| Operating cash flows before movements in working capital | 70,101,925 | 183,042,686 | 55,379,663 |
| Decrease (increase) in inventories | 373,628 | (192,063) | (2,946,897) |
| Increase in bills receivables | — | — | (2,800,000) |
| (Increase) decrease in other receivables, deposits and prepayments | (16,527,537) | (19,542,629) | 434,288 |
| (Decrease) increase in trade payables | (198,868,897) | 8,254,299 | (4,383,164) |
| Increase (decrease) in other payables and accrued expenses | 6,225,353 | (5,666,945) | (12,225,351) |
| Cash (used in) from operations | (138,695,528) | 165,895,348 | 33,458,539 |
| Income taxes paid | (3,268,726) | (14,277,252) | (21,512,729) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (141,964,254) | 151,618,096 | 11,945,810 |
| INVESTING ACTIVITIES | | | |
| Advance to immediate holding company | (28,747,194) | (125,705,870) | (685,845,751) |
| Advance to fellow subsidiaries | — | (39,409,898) | (254,928,160) |
| Repayment from immediate holding company | 36,572,748 | 90,131,009 | 712,524,217 |
| Repayment from fellow subsidiaries | — | 10,091,228 | 38,593,583 |
| Purchase of property, plant and equipment | (27,091,374) | (79,441,991) | (53,515,605) |
| Interest received | 181,759 | 27,011 | 503,371 |
| Withdrawal of pledged bank deposits | 100,000,000 | — | — |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | 80,915,939 | (144,308,511) | (242,668,345) |

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| FINANCING ACTIVITIES | | | |
| Repayment to fellow subsidiaries | (280,507,326) | (296,712,066) | (326,663,710) |
| Interest paid | (1,905,119) | (12,974,099) | (15,532,028) |
| Advance from fellow subsidiaries | 341,555,715 | 299,981,370 | 201,688,867 |
| Capital injection | — | — | 370,000,000 |
| Advance from intermediate holding companies | — | 1,800,000 | 1,953,055 |
| Repayment to intermediate holding companies | — | (48,000) | — |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 59,143,270 | (7,952,795) | 231,446,184 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,905,045) | (643,210) | 723,649 |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 3,287,630 | 1,382,585 | 739,375 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances and cash | 1,382,585 | 739,375 | 1,463,024 |

## Notes to the Financial Information

### 1. GENERAL

The principal activities of Panzhihua Yanjiang is mining and sale of raw coal to its group companies. Its immediate holding company is Sichuan Hidili Industry Co., Ltd., a company established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Panzhihua Yanjiang. In the opinion of the directors of Panzhihua Yanjiang, the ultimate holding company of Panzhihua Yanjiang is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Panzhihua Yanjiang is Hebian Village, Taiping Country, Renhe District, Panzhihua City, Sichuan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Panzhihua Yanjiang.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Panzhihua Yanjiang has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Panzhihua Yanjiang's financial year beginning on 1 January 2012.

Panzhihua Yanjiang has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Panzhihua Yanjiang anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Panzhihua Yanjiang.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Panzhihua Yanjiang has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Panzhihua Yanjiang retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Panzhihua Yanjiang; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Panzhihua Yanjiang and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress and mining structures and mining rights, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Panzhihua Yanjiang's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Panzhihua Yanjiang's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Panzhihua Yanjiang expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Panzhihua Yanjiang is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Panzhihua Yanjiang has a present obligation as a result of a past event, it is probable that Panzhihua Yanjiang will be required to settle the obligation. Provisions are measured at the directors of Panzhihua Yanjiang's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Panzhihua Yanjiang becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Panzhihua Yanjiang's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bills receivables, other receivables and deposits, amount due from immediate holding company, amounts due from fellow subsidiaries and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Panzhihua Yanjiang derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Panzhihua Yanjiang are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Panzhihua Yanjiang after deducting all of its liabilities. Equity instruments issued by Panzhihua Yanjiang are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amounts due to intermediate holding companies and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Panzhihua Yanjiang derecognises financial liabilities when, and only when, Panzhihua Yanjiang's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Panzhihua Yanjiang reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Panzhihua Yanjiang estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Panzhihua Yanjiang's accounting policies, which are described in note 3, the directors of Panzhihua Yanjiang are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value. Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Panzhihua Yanjiang assess annually the residual value and the useful life of the property, plant and equipment as well as the reserve of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB220,877,481, RMB295,011,617 and RMB344,045,424 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Panzhihua Yanjiang's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB163,108,852, RMB217,888,638 and RMB255,943,209 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Panzhihua Yanjiang consider that Panzhihua Yanjiang continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Panzhihua Yanjiang to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB163,108,852, RMB217,888,638 and RMB255,943,209, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 441,369,184 | 533,799,750 | 759,399,461 |
| **Financial liabilities** | | | |
| Amortised cost | 345,004,579 | 354,032,275 | 229,131,304 |

### (b) Financial risk management objectives and policies

Panzhihua Yanjiang's major financial instruments include bills receivables, other receivables and deposits, bank balances, trade payables, other payables and amounts due from and to group companies. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Panzhihua Yanjiang manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***(i) Market risk***

*Interest rate risk*

Panzhihua Yanjiang is exposed to cash flow interest rate risk in relation to variable rate bank balances (see note 17). The directors of Panzhihua Yanjiang consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Panzhihua Yanjiang currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Panzhihua Yanjiang consider the amount is insignificant.

***(ii) Credit risk***

As at the end of each reporting period, Panzhihua Yanjiang's maximum exposure to credit risk which will cause a financial loss to Panzhihua Yanjiang due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statement of financial position.

Management of Panzhihua Yanjiang reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Panzhihua Yanjiang considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Panzhihua Yanjiang reviews the financial position and repayment abilities of respective group companies, Panzhihua Yanjiang does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

***(iii) Liquidity risk***

In the management of the liquidity risk, Panzhihua Yanjiang monitors and maintains a level of cash and cash equivalents deemed adequate by management of Panzhihua Yanjiang to finance its operations and mitigate the effects of fluctuations in cash flows.

Panzhihua Yanjiang relies on advances from group companies as a significant source of liquidity. Details of which are set out in note 16.

The financial liabilities carried at amortised cost were required to be settled on demand or less than three months according to respective contractual provision at 31 December 2010, 31 December 2011 and 31 December 2012.

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Panzhihua Yanjiang considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Panzhihua Yanjiang, being the chief operating decision makers, assess the performance and allocate the resources of Panzhihua Yanjiang as a whole because Panzhihua Yanjiang is mainly engaged in mining. Therefore, the directors of Panzhihua Yanjiang consider that Panzhihua Yanjiang only has one operating segment under the IFRS 8. In this regard, no segment information is presented.

### Geographical information

The operations and assets of Panzhihua Yanjiang are located in the PRC.

### Information about major customers

Revenue from sales of raw coals are entirely contributed from fellow subsidiaries and immediate holding company of Panzhihua Yanjiang. Details of related party transactions are disclosed in note 24(a).

## 7. FINANCE COSTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Interest expense on advance drawn on bills receivable discounted without recourse | 1,905,119 | 12,974,099 | 15,532,028 |

## 8. INCOME TAX EXPENSE

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Current tax: | | | |
| PRC Enterprise Income Tax ("**EIT**") | 5,211,286 | 20,693,484 | 9,046,025 |
| Underprovision in prior years | — | 44,744 | — |
| | 5,211,286 | 20,738,228 | 9,046,025 |

No provision for Hong Kong Profits Tax has been made as Panzhihua Yanjiang's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory tax rate of Panzhihua Yanjiang is 25% during the Relevant Periods.

Pursuant to the "Application of preferential tax treatment for Foreign Investment Enterprise", Panzhihua Yanjiang was entitled to 50% deduction of EIT for three years from 2009 to 2011. Therefore, the applicable tax rate of Panzhihua Yanjiang is 12.5% for 2010 and 2011.

Panzhihua Yanjiang was also entitled to the tax incentives in connection with the development of the western part of the PRC in 2010, and the applicable tax rate of Panzhihua Yanjiang for 2010 was 7.5%.

The tax charge for the year can be reconciled to the profit before taxation as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Profit before tax | 91,552,912 | 192,727,627 | 65,559,617 |
| Tax at applicable tax rate of 25% | 22,888,228 | 48,181,907 | 16,389,904 |
| Tax effect of expenses not deductible for tax purpose | 331,811 | 120,155 | 181,306 |
| Underprovision in prior years | — | 44,744 | — |
| Tax effect of concessionary tax rate granted | (11,385,442) | (20,548,717) | — |
| Tax effect of income not taxable | (6,623,311) | (7,059,861) | (7,525,185) |
| Income tax expense for the year | 5,211,286 | 20,738,228 | 9,046,025 |

## 9. PROFIT FOR THE YEAR

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Profit for the year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 55,478,178 | 77,362,577 | 34,764,275 |
| Depreciation and amortisation of property, plant and equipment | 3,037,203 | 5,141,059 | 4,665,845 |
| Loss on disposal of property, plant and equipment | 5,182 | — | — |
| Provision for restoration and environmental costs *(note 20)* | 276,514 | 466,356 | 226,284 |
| Salaries and other benefits | 17,631,462 | 29,922,284 | 22,486,544 |
| Retirement benefit costs | 965,869 | 817,569 | 1,317,264 |
| Total staff costs | 18,597,331 | 30,739,853 | 23,803,808 |
| Bank interest income | (181,759) | (27,011) | (503,371) |
| Imputed interest income on amount due from immediate holding company | (11,289,770) | (12,033,891) | (12,827,060) |
| Imputed interest income on amounts due from fellow subsidiaries | (15,203,476) | (16,205,553) | (17,273,680) |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

**Directors' emoluments**

During the Relevant Periods, no fees or other emoluments was paid or payable by Panzhihua Yanjiang to its directors.

During the Relevant Periods, no remuneration was paid by Panzhihua Yanjiang to its directors as an inducement to join or upon joining Panzhihua Yanjiang or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

**Employees' emoluments**

The five highest paid individuals for the Relevant Periods were as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Salaries and other allowances | 479,436 | 361,159 | 676,059 |
| Contributions to retirement benefit schemes | 89,584 | 42,777 | 89,117 |
| | 569,020 | 403,936 | 765,176 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Panzhihua Yanjiang to the five highest paid individuals as an inducement to join Panzhihua Yanjiang as compensation for loss of office.

## 11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | | |
| At 1 January 2010 | 11,300,245 | 165,741,402 | 7,869,748 | 387,029 | 1,322,908 | 18,381,826 | 205,003,158 |
| Additions | 84,615 | — | 2,760,538 | — | 373,189 | 24,337,622 | 27,555,964 |
| Transfer | 1,494,104 | 5,667,980 | — | — | — | (7,162,084) | — |
| Disposal | — | — | — | (53,230) | — | — | (53,230) |
| At 31 December 2010 | 12,878,964 | 171,409,382 | 10,630,286 | 333,799 | 1,696,097 | 35,557,364 | 232,505,892 |
| Additions | 1,281,476 | 52,233,634 | 2,831,516 | — | 275,381 | 22,653,188 | 79,275,195 |
| Transfer | — | 6,265,406 | — | — | — | (6,265,406) | — |
| At 31 December 2011 | 14,160,440 | 229,908,422 | 13,461,802 | 333,799 | 1,971,478 | 51,945,146 | 311,781,087 |
| Additions | — | 28,237,696 | 2,092,746 | 2,851,118 | 3,844,951 | 16,673,141 | 53,699,652 |
| Transfer | — | 12,050,679 | — | — | — | (12,050,679) | — |
| At 31 December 2012 | 14,160,440 | 270,196,797 | 15,554,548 | 3,184,917 | 5,816,429 | 56,567,608 | 365,480,739 |
| DEPRECIATION | | | | | | | |
| At 1 January 2010 | 689,014 | 6,484,129 | 1,162,748 | 140,826 | 162,539 | — | 8,639,256 |
| Provided for the year | 333,517 | 1,816,401 | 616,145 | 99,720 | 171,420 | — | 3,037,203 |
| Eliminated on disposals | — | — | — | (48,048) | — | — | (48,048) |
| At 31 December 2010 | 1,022,531 | 8,300,530 | 1,778,893 | 192,498 | 333,959 | — | 11,628,411 |
| Provided for the year | 374,469 | 3,719,254 | 741,353 | 99,277 | 206,706 | — | 5,141,059 |
| At 31 December 2011 | 1,397,000 | 12,019,784 | 2,520,246 | 291,775 | 540,665 | — | 16,769,470 |
| Provided for the year | 396,151 | 2,233,804 | 935,408 | 752,304 | 348,178 | — | 4,665,845 |
| At 31 December 2012 | 1,793,151 | 14,253,588 | 3,455,654 | 1,044,079 | 888,843 | — | 21,435,315 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 11,856,433 | 163,108,852 | 8,851,393 | 141,301 | 1,362,138 | 35,557,364 | 220,877,481 |
| At 31 December 2011 | 12,763,440 | 217,888,638 | 10,941,556 | 42,024 | 1,430,813 | 51,945,146 | 295,011,617 |
| At 31 December 2012 | 12,367,289 | 255,943,209 | 12,098,894 | 2,140,838 | 4,927,586 | 56,567,608 | 344,045,424 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 10 years but in the opinion of the directors of Panzhihua Yanjiang, Panzhihua Yanjiang will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method based on the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

The legal titles of the mining rights have been granted by the relevant government authorities as at 31 December 2010, 31 December 2011 and 31 December 2012.

During the year ended 31 December 2012, the operation in mines of Panzhihua Yanjiang have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB56,567,608 and RMB287,477,816, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Panzhihua Yanjiang considers that Panzhihua Yanjiang will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Panzhihua Yanjiang for the next five years, taking into account the best estimates of management of Panzhihua Yanjiang concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Panzhihua Yanjiang. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Panzhihua Yanjiang has determined that there is no impairment of the mining structure and mining rights.

## 13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2010, 31 December 2011 and 31 December 2012, deposits of RMB16,599,828, RMB31,760,728 and RMB31,760,728, respectively, represent environmental rehabilitation deposits paid to the local government in the PRC, carrying interest at market rate determined by local government. The amounts will be refunded at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. They are not expected to be refunded within the next twelve months.

At 31 December 2012, included in other receivables, deposits and prepayment is an amount of RMB2,960,000 prepayment for advisory service to Huaneng, a shareholder of Panzhihua Yanjiang.

## 14. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Auxiliary materials and spare parts | 2,590,885 | 2,782,948 | 5,729,845 |

## 15. BILLS RECEIVABLES

At 31 December 2012, bills receivables represents bill issued by a fellow subsidiary for settlement of its trade balance. The aged of the bills receivable is within 90 days. Panzhihua Yanjiang generally allows an average credit period ranging from 90–120 days to its trade customers.

## 16. AMOUNTS DUE FROM AND TO GROUP COMPANIES

At 31 December 2010, 31 December 2011 and 31 December 2012, except for amount due from immediate holding company of RMB182,577,583, RMB194,611,474 and RMB207,438,534 and amounts due from fellow subsidiaries of RMB245,869,831, RMB262,075,384 and RMB279,349,064, respectively, which will be recovered in four year time from initial recognition, amounts due from group companies are expected to be recovered in one year. The effective interest of amounts due from fellow subsidiaries expected to be recovered in three year time is 6.6% per annum. All amounts due from group companies are interest free and unsecured.

All amounts due to group companies are interest free, unsecured and repayable on demand.

There is no credit terms and policies on the trading balances with group companies.

## 17. BANK BALANCES AND CASH

Bank balances carry interests at market rates range from 0.36% to 0.50% per annum.

## 18. TRADE PAYABLES

The aged analysis of Panzhihua Yanjiang's trade payables based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 3,199,947 | 11,243,152 | 1,395,788 |
| 91–180 days | 1,017,845 | 799,469 | 1,986,687 |
| 181–365 days | 452,137 | 236,746 | 4,005,014 |
| Over 365 days | 126,588 | 771,449 | 1,280,163 |
| | 4,796,517 | 13,050,816 | 8,667,652 |

The average credit period on purchases of goods is 90 days.

## 19. OTHER PAYABLES AND ACCRUED EXPENSES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Accrued salaries | 1,802,014 | 2,026,768 | 1,531,617 |
| Accrued expenses | 19,058,599 | 15,588,352 | 8,622,736 |
| Payables for acquisition of property, plant and equipment | 464,590 | 297,794 | 481,841 |
| Other tax payables | 9,403,847 | 7,084,519 | — |
| Others | 1,539,382 | 1,437,258 | 3,757,193 |
| | 32,268,432 | 26,434,691 | 14,393,387 |

## 20. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | *RMB* |
|---|---|
| At 1 January 2010 | 1,165,175 |
| Provision for the year | 276,514 |
| At 31 December 2010 | 1,441,689 |
| Provision for the year | 466,356 |
| At 31 December 2011 | 1,908,045 |
| Provision for the year | 226,284 |
| At 31 December 2012 | 2,134,329 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Panzhihua Yanjiang is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal production each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 21. PAID IN CAPITAL

| | *RMB* |
|---|---|
| Registered and fully paid at 1 January 2010, 31 December 2010 and 31 December 2011 | 5,000,000 |
| Capital injection | 2,812,500 |
| Registered and fully paid at 31 December 2012 | 7,812,500 |

On 28 August 2012, the total registered capital of Panzhihua Yanjiang increased from RMB5,000,000 to RMB7,812,500 and Huaneng paid an additional contribution of RMB370,000,000 in September 2012, of which RMB2,812,500 as paid in capital and RMB367,187,500 as capital reserve.

## 22. CAPITAL RISK MANAGEMENT

Panzhihua Yanjiang manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Panzhihua Yanjiang remains unchanged throughout the Relevant Period.

The capital structure of Panzhihua Yanjiang consists of debts, which include amounts due to group companies as disclosed in note 16, net of cash and cash equivalents and equity attributable to owners of Panzhihua Yanjiang, comprising paid in capital, reserves and retained profits.

The directors of Panzhihua Yanjiang review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Panzhihua Yanjiang will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

**23. CAPITAL COMMITMENTS**

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | 4,995,223 | 13,981,372 | 9,231,968 |

**24. RELATED PARTY TRANSACTIONS**

During the Relevant Periods, Panzhihua Yanjiang entered into the following transactions with related parties:

**(a) Transactions**

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Immediate holding company: | | | |
| Sales | 11,850,096 | 115,785,284 | 100,142,099 |
| Fellow subsidiaries: | | | |
| Sales | 116,580,035 | 146,998,832 | 3,657,265 |
| Purchases | 10,330,608 | 3,420,196 | 1,960,221 |
| A shareholder: | | | |
| Advisory fee paid and payable | — | — | 1,480,000 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 13, 15 and 16.

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Panzhihua Yanjiang's mine was resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Panzhihua Yanjiang have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Yunnan Hidili Coal Industry Co., Ltd. ("**Yunnan Hidili**") and its subsidiaries (together with Yunnan Hidili collectively referred to as the "**Yunnan Hidili Group**") for each of the three years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") issued in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Yunnan Hidili and certain subsidiaries of the Company and share transfers.

Yunnan Hidili was established with limited liability in the People's Republic of China (the "**PRC**") on 10 July 2009.

The particulars of Yunnan Hidili's subsidiaries are as follows:

| Name of the Company | Place of establishment | Date of establishment | Paid up capital as at 31 December 2012 *RMB* | Principal activities |
|---|---|---|---|---|
| Fuyuan County Yuyuan Coal Industry Co., Ltd. | the PRC | 16 July 2004 | 6,050,000 | Coal mining and sale of coal |
| Fuyuan County Fude Coal Preparation Co., Ltd. ("Fuyuan Fude") | the PRC | 30 November 2005 | 6,000,000 | Coal washing |

Both subsidiaries are 80% owned by Yunnan Hidili at 31 December 2010, 31 December 2011 and 31 December 2012 and up to the date of this report.

The statutory financial statements of Yunnan Hidili Group were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Yunnan Hidili Group for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Yunnan Hidili have prepared the consolidated financial statements of Yunnan Hidili for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Yunnan Hidili Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Yunnan Hidili who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Yunnan Hidili Group as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information which indicates that Yunnan Hidili Group's current liabilities exceeded its current assets by RMB403,448,108 as at 31 December 2012. As described in note 1 to the Financial Information, the Company has agreed to provide financial support to Yunnan Hidili Group to meet in full its financial obligations as and when they fall due in the foreseeable future. However, the Company's going concern is dependent on the successful implementation of a number of measures as disclosed in note 1 to the Financial Information to improve its financial position. The eventual success of these measures cannot presently be determined and accordingly this indicates the existence of a material uncertainty which may cast significant doubt about Yunnan Hidili Group's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from a failure of the Company to implement such measures as disclosed in note 1 to the Financial Information.

## A. FINANCIAL INFORMATION

### Consolidated Statements of Comprehensive Income

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| Revenue | *6* | 306,069,286 | 435,682,775 | 370,695,794 |
| Cost of sales | | (247,955,291) | (369,434,760) | (307,567,605) |
| Gross profit | | 58,113,995 | 66,248,015 | 63,128,189 |
| Other income | | 15,046,463 | 29,461,481 | 29,397,300 |
| Administrative expenses | | (23,712,404) | (22,465,177) | (37,215,911) |
| Finance costs | *7* | (37,682,709) | (24,259,016) | (34,484,881) |
| Share of losses of associates | | — | — | (893,976) |
| Profit before tax | | 11,765,345 | 48,985,303 | 19,930,721 |
| Income tax expenses | *8* | (3,333,268) | (14,858,772) | (1,264,401) |
| Profit and total comprehensive income for the year | *9* | 8,432,077 | 34,126,531 | 18,666,320 |
| Profit (loss) and total comprehensive income (expense) for the year attributable to: | | | | |
| Owners of the Company | | 7,974,133 | 40,975,438 | 15,561,361 |
| Non-controlling interests | | 457,944 | (6,848,907) | 3,104,959 |
| | | 8,432,077 | 34,126,531 | 18,666,320 |

**Consolidated Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 638,208,053 | 952,987,316 | 1,087,711,069 |
| Deposits | *13* | 259,271,433 | 51,000,000 | 1,000,000 |
| Interests in associates | *14* | — | 103,571,433 | 102,677,457 |
| Available-for-sale investment | *15* | — | 54,700,000 | 54,700,000 |
| Amount due from an intermediate holding company | *19* | — | 27,659,594 | 57,526,036 |
| Amounts due from fellow subsidiaries | *19* | 398,363,969 | 322,740,204 | 366,014,800 |
| | | 1,295,843,455 | 1,512,658,547 | 1,669,629,362 |
| CURRENT ASSETS | | | | |
| Inventories | *16* | 60,606,446 | 32,881,283 | 20,782,770 |
| Bills and trade receivables | *17* | 27,907,308 | 30,255,330 | 109,633,321 |
| Other receivables, deposits and prepayments | *18* | 38,842,938 | 82,728,058 | 74,413,587 |
| Amount due from immediate holding company | *19* | — | — | 6,713,920 |
| Amounts due from intermediate holding companies | *19* | — | 22,560,143 | — |
| Amounts due from fellow subsidiaries | *19* | 362,880,307 | 400,715,161 | 123,642,095 |
| Amount due from a related party | *19* | 104,468,472 | — | 15,922,404 |
| Bank balances and cash | *20* | 21,176,502 | 42,611,072 | 52,349,590 |
| | | 615,881,973 | 611,751,047 | 403,457,687 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *21* | 5,243,851 | 21,625,326 | 43,039,773 |
| Other payables and accrued expenses | *22* | 35,918,654 | 76,202,673 | 83,555,916 |
| Amount due to immediate holding company | *19* | 445,051,180 | 9,588,198 | — |
| Amounts due to intermediate holding companies | *19* | 894,696,160 | 468,018,724 | 56,651,847 |
| Amounts due to fellow subsidiaries | *19* | 236,803,397 | 562,923,668 | 563,750,294 |
| Amount due to an associate | *19* | — | 17,262,236 | 42,969,578 |
| Tax payables | | 3,200,464 | 17,108,080 | 16,938,387 |
| Bank borrowing | *23* | 15,000,000 | — | — |
| | | 1,635,913,706 | 1,172,728,905 | 806,905,795 |

| | | As at 31 December | | |
|---|---|---|---|---|
| | | 2010 | 2011 | 2012 |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NET CURRENT LIABILITIES | | (1,020,031,733) | (560,977,858) | (403,448,108) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 275,811,722 | 951,680,689 | 1,266,181,254 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred tax liabilities | *26* | 88,941,990 | 88,908,012 | 88,877,596 |
| Provision for restoration and environmental costs | *24* | 220,985 | 420,069 | 529,960 |
| Amount due to an intermediate holding company | *19* | — | 418,262,551 | 457,985,365 |
| Amounts due to fellow subsidiaries | *19* | 43,557,544 | 252,090,213 | 268,161,245 |
| | | 132,720,519 | 759,680,845 | 815,554,166 |
| NET ASSETS | | 143,091,203 | 191,999,844 | 450,627,088 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *25* | 20,000,000 | 20,000,000 | 30,303,000 |
| Reserves | | 64,387,580 | 120,145,128 | 365,364,413 |
| Equity attributable to owners of the Company | | 84,387,580 | 140,145,128 | 395,667,413 |
| Non-controlling interests | | 58,703,623 | 51,854,716 | 54,959,675 |
| TOTAL EQUITY | | 143,091,203 | 191,999,844 | 450,627,088 |

## Consolidated Statements of Changes In Equity

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note i)* | Future development fund *RMB* *(Note ii)* | Accumulated losses *RMB* | Total *RMB* | Non-controlling interests *RMB* | Total *RMB* |
| At 1 January 2010 | 20,000,000 | 127,000,000 | — | — | (1,508,133) | 145,491,867 | 58,045,679 | 203,537,546 |
| Profit and total comprehensive income for the year | — | — | — | — | 7,974,133 | 7,974,133 | 457,944 | 8,432,077 |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (81,748,190) | (81,748,190) | — | (81,748,190) |
| Deemed contribution on interest free loans granted from fellow subsidiaries | — | — | — | — | 12,669,770 | 12,669,770 | — | 12,669,770 |
| Transfer | — | — | 1,688,451 | 4,565,546 | (6,253,997) | — | — | — |
| Acquisition of a subsidiary | — | — | — | — | — | — | 200,000 | 200,000 |
| At 31 December 2010 | 20,000,000 | 127,000,000 | 1,688,451 | 4,565,546 | (68,866,417) | 84,387,580 | 58,703,623 | 143,091,203 |
| Profit (loss) and total comprehensive income (expense) for the year | — | — | — | — | 40,975,438 | 40,975,438 | (6,848,907) | 34,126,531 |
| Deemed distribution on interest free loan granted to an intermediate holding company | — | — | — | — | (5,560,137) | (5,560,137) | — | (5,560,137) |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (20,132,850) | (20,132,850) | — | (20,132,850) |
| Deemed contribution on interest free loans granted from fellow subsidiaries | — | — | — | — | 40,475,097 | 40,475,097 | — | 40,475,097 |
| Transfer | — | — | 350,555 | 6,043,659 | (6,394,214) | — | — | — |
| At 31 December, 2011 | 20,000,000 | 127,000,000 | 2,039,006 | 10,609,205 | (19,503,083) | 140,145,128 | 51,854,716 | 191,999,844 |
| Profit and total comprehensive income for the year | — | — | — | — | 15,561,361 | 15,561,361 | 3,104,959 | 18,666,320 |
| Deemed distribution on interest free loan granted to an intermediate holding company | — | — | — | — | (5,652,006) | (5,652,006) | — | (5,652,006) |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (4,387,070) | (4,387,070) | — | (4,387,070) |
| Transfer | — | — | 12,623,516 | 10,405 | (12,633,921) | — | — | — |
| Capital injection | 10,303,000 | 239,697,000 | — | — | — | 250,000,000 | — | 250,000,000 |
| As at 31 December 2012 | 30,303,000 | 366,697,000 | 14,662,522 | 10,619,610 | (26,614,719) | 395,667,413 | 54,959,675 | 450,627,088 |

*Notes:*

(i) According to the Articles of Association of Yunnan Hidili and its subsidiaries, they are required to make an appropriation of 10% of their profit after taxation each year to statutory surplus reserve until the balance reaches 50% of their respective registered capital while they can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of the respective entities.

(ii) Pursuant to the relevant regulations in the PRC, Yunnan Hidili and its subsidiaries are required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Consolidated Statements of Cash Flows**

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | | |
| Profit before tax | | 11,765,345 | 48,985,303 | 19,930,721 |
| Adjustments for: | | | | |
| Finance costs | | 37,682,709 | 24,259,016 | 34,484,881 |
| Depreciation of property, plant and equipment | | 7,006,898 | 6,161,548 | 8,675,468 |
| Interest income | | (45,836) | (64,312) | (86,614) |
| Impairment loss recognised in respect of trade receivables | | — | 1,078 | — |
| Impairment loss (reversal of impairment loss) recognised in respect of other receivables | | 60,000 | (60,000) | 73,165 |
| Loss on disposal of property, plant and equipment | | 3,585,132 | — | — |
| Provision for restoration and environmental costs | | 220,985 | 199,084 | 109,891 |
| Imputed interest income | | (14,888,369) | (29,142,341) | (29,260,093) |
| Share of losses of associates | | — | — | 893,976 |
| Operating cash flows before movements in working capital | | 45,386,864 | 50,339,376 | 34,821,395 |
| (Increase) decrease in inventories | | (56,765,903) | 27,725,163 | 12,098,513 |
| (Increase) decrease in bills and trade receivables | | (27,907,308) | 15,930,900 | 19,742,009 |
| (Increase) decrease in other receivables and prepayments | | (23,954,402) | (43,825,120) | 2,117,522 |
| Increase in trade payables | | 3,387,879 | 16,381,475 | 21,414,447 |
| Increase in other payables and accrued expenses | | 6,513,718 | 5,776,919 | 10,877,027 |
| Cash (used in) from operations | | (53,339,152) | 72,328,713 | 101,070,913 |
| Income taxes (paid) refund | | (227,210) | (985,134) | (1,464,510) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | | (53,566,362) | 71,343,579 | 99,606,403 |

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| INVESTING ACTIVITIES | | | | |
| Repayment from fellow subsidiaries | | — | 529,313,207 | 564,053,123 |
| Purchase of property, plant and equipment | | (253,547,268) | (276,613,746) | (122,874,460) |
| Advance to a related party | | (153,468,472) | (179,711,528) | (264,099,788) |
| Repayment from a related party | | 49,000,000 | 265,900,000 | 149,057,384 |
| Deposit paid for acquisition of associates | | (103,571,433) | — | — |
| Deposit paid for acquisition of assets | | (25,500,000) | — | — |
| Deposits refunded | | — | 50,000,000 | — |
| Acquisition of a subsidiary | 28 | 541 | — | — |
| Interest received | | 45,836 | 64,312 | 86,614 |
| Proceeds from disposal of property, plant and equipment | | 382,863,652 | — | — |
| Advance to intermediate holding companies | | — | (55,638,841) | (33,625,242) |
| Advance to fellow subsidiaries | | (810,599,446) | (482,655,838) | (307,274,836) |
| Advance to immediate holding company | | — | — | (6,713,920) |
| Repayment from intermediate holding companies | | — | — | 22,560,143 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | (914,776,590) | (149,342,434) | 1,169,018 |
| FINANCING ACTIVITIES | | | | |
| Interest paid | | (37,682,709) | (25,868,022) | (36,338,610) |
| Advance from fellow subsidiaries | | 442,621,083 | 1,498,542,613 | 748,251,231 |
| Advance from immediate holding company | | 190,929,184 | 18,684,640 | 2,382,522 |
| Advance from intermediate holding companies | | 1,070,407,893 | 581,404,947 | 461,936,917 |
| Repayment to fellow subsidiaries | | (340,493,401) | (931,625,535) | (747,424,605) |
| Repayment to immediate holding company | | — | (454,147,622) | (11,970,720) |
| Repayment to intermediate holding companies | | (340,001,733) | (589,819,832) | (783,580,980) |
| Repayment of bank borrowing | | — | (15,000,000) | — |
| Advance from an associate | | — | 17,262,236 | 25,707,342 |
| Capital injection | | — | — | 250,000,000 |
| NET CASH FROM (USED TO) FINANCING ACTIVITIES | | 985,780,317 | 99,433,425 | (91,036,903) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 17,437,365 | 21,434,570 | 9,738,518 |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | | 3,739,137 | 21,176,502 | 42,611,072 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances and cash | | 21,176,502 | 42,611,072 | 52,349,590 |

## Notes to the Financial Information

### 1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The principal activities of Yunnan Hidili Group is mining and sale of raw coal and clean coal. Its immediate holding company is Shenzhen City Hidili Commercial and Trading Co., Limited, a company established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Yunnan Hidili. In the opinion of the directors of Yunnan Hidili, the ultimate holding company of Yunnan Hidili is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Yunnan Hidili is Bumu Village, Mohong Town, Fuyuan County, Yunnan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Yunnan Hidili.

In preparing the Underlying Financial Statements, the directors of Yunnan Hidili have taken into consideration that Yunnan Hidili Group's current liabilities exceeded its current assets by RMB403,448,108 as at 31 December 2012.

The Financial Information has been prepared on a going concern basis because the Company has agreed to provide financial support to Yunnan Hidili Group to meet in full its financial obligations as and when they fall due in the foreseeable future. The Company has been implementing a number of measures to improve its financial position, including but not limited to: (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities of not less than RMB2.5 billion; (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million; and (3) proposed disposal of 50% equity interests in certain of its subsidiaries for a total consideration of RMB2.4 billion, details of which are set out in the Company's announcement dated 24 May 2013. The directors of Yunnan Hidili believe that the above measures can be successfully implemented and therefore the Company will have sufficient working capital to finance the operations of Yunnan Hidili Group and Yunnan Hidili Group can meet its financial obligation as and when they fall due for the foreseeable future.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, throughout the Relevant Periods, Yunnan Hidili Group has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Yunnan Hidili Group's financial year beginning on 1 January 2012.

Yunnan Hidili Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Yunnan Hidili anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Yunnan Hidili Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Yunnan Hidili and the entity controlled by the Yunnan Hidili (its subsidiaries). Control is achieved where the Yunnan Hidili has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of the subsidiaries of Yunnan Hidili to bring their accounting policies into line with those used by the Yunnan Hidili.

All intra-group transaction, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Yunnan Hidili Group's equity therein.

***Investment in associates***

An associate is an entity over which the Yunnan Hidili Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Yunnan Hidili Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Yunnan Hidili Group's share of the profit or loss and other comprehensive income of the associates. When the Yunnan Hidili Group's share of losses of an associate exceeds the Yunnan Hidili Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Yunnan Hidili Group's net investment in the associate), the Yunnan Hidili Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Yunnan Hidili Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Yunnan Hidili Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Yunnan Hidili Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Yunnan Hidili Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Yunnan Hidili Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Yunnan Hidili Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Yunnan Hidili Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Yunnan Hidili Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Yunnan Hidili Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Yunnan Hidili Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Yunnan Hidili Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Yunnan Hidili Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Yunnan Hidili Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Yunnan Hidili Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yunnan Hidili Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Yunnan Hidili Group is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Yunnan Hidili Group has a present obligation as a result of a past event, it is probable that Yunnan Hidili Group will be required to settle the obligation. Provisions are measured at the directors of Yunnan Hidili Group's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when Yunnan Hidili Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Yunnan Hidili Group's financial assets are loans and receivables and available-for-sale investment. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits, bills and trade receivables, amount due from a related party, amounts due from fellow subsidiaries, amount due from immediate holding company, amounts due from intermediate holding companies and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment.

*Available-for-sale investment ("AFS")*

AFS investment are non-derivatives that are designated as or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carries at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all the financial assets.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Yunnan Hidili Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Yunnan Hidili Group are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Yunnan Hidili Group after deducting all of its liabilities. Equity instruments issued by Yunnan Hidili Group are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amounts due to intermediate holding companies, amount due to immediate holding company, amount due to an associate, amounts due to fellow subsidiaries and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Yunnan Hidili Group derecognises financial liabilities when, and only when, Yunnan Hidili Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Yunnan Hidili Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Yunnan Hidili Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Yunnan Hidili Group's accounting policies, which are described in note 3, the directors of Yunnan Hidili are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value. Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Yunnan Hidili assess annually the residual value and the useful life of the property, plant and equipment as well as the reserve of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB638,208,053, RMB952,987,316 and RMB1,087,711,069 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Yunnan Hidili Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB498,374,772, RMB569,316,882 and RMB903,880,593 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Yunnan Hidili consider that Yunnan Hidili Group continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Yunnan Hidili Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB498,374,772, RMB569,316,882 and RMB903,880,593, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 933,030,815 | 862,711,185 | 774,990,193 |
| Available for sales | — | 54,700,000 | 54,700,000 |
| | 933,030,815 | 917,411,185 | 829,690,193 |
| **Financial liabilities** | | | |
| Amortised cost | 1,660,871,302 | 1,803,147,269 | 1,501,475,875 |

### (b) Financial risk management objectives and policies

Yunnan Hidili Group's major financial instruments include bills and trade receivables, other receivables and deposits, bank balances, trade payables, other payables and amounts due from and to related parties. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Yunnan Hidili Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *(i) Market risk*

*Interest rate risk*

Yunnan Hidili Group is exposed to cash flow interest rate risk in relation to variable rate bank balances and fair value interest rate risk in relation to bank borrowing and certain balances of amounts due from and to group companies which carry fixed interest rate (see notes 20, 23 and 19 for details). The directors of Yunnan Hidili consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Yunnan Hidili Group currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Yunnan Hidili Group consider the amount is insignificant.

#### *(ii) Credit risk*

As at the end of each reporting period, Yunnan Hidili Group's maximum exposure to credit risk which will cause a financial loss to Yunnan Hidili Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

Management of Yunnan Hidili Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Yunnan Hidili Group considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Yunnan Hidili reviews the financial positions and repayment abilities of respective group companies, Yunnan Hidili Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

***(iii) Liquidity risk***

In the management of the liquidity risk, Yunnan Hidili Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of Yunnan Hidili Group to finance the its operations and mitigate the effects of fluctuations in cash flows.

Yunnan Hidili Group relies on advances from related parties as a significant source of liquidity. Details of which are set out in note 19.

At 31 December 2012, Yunnan Hidili Group had net current liabilities of RMB403,448,108. As the Company has agreed to provide financial support to Yunnan Hidili Group to meet in full its financial obligations as they fall due in the foreseeable future, the directors of Yunnan Hidili consider the liquidity risk of Yunnan Hidili Group is insignificant.

The following tables detail Yunnan Hidili Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Hidili Industry can be required to pay.

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2010 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 5,243,851 | — | — | 5,243,851 | 5,243,851 |
| Other payables | — | 20,519,170 | — | — | 20,519,170 | 20,519,170 |
| Amount due to immediate holding company | 5.76 | 445,051,180 | — | — | 445,051,180 | 445,051,180 |
| Amounts due to intermediate holding companies | — | 894,696,160 | — | — | 894,696,160 | 894,696,160 |
| Amounts due to fellow subsidiaries | 0.19 | 236,803,397 | — | 56,227,314 | 293,030,711 | 280,360,941 |
| Bank borrowing — fixed rate | 8.10 | 15,401,685 | — | — | 15,401,685 | 15,000,000 |
| | | 1,617,715,443 | — | 56,227,314 | 1,673,942,757 | 1,660,871,302 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2011 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 21,625,326 | — | — | 21,625,326 | 21,625,326 |
| Other payables | — | 53,376,353 | — | — | 53,376,353 | 53,376,353 |
| Amount due to immediate holding company | 5.76 | 9,588,198 | — | — | 9,588,198 | 9,588,198 |
| Amounts due to intermediate holding companies | 4.69 | 468,018,724 | — | 582,328,626 | 1,050,347,350 | 886,281,275 |
| Amounts due to fellow subsidiaries | 2.41 | 562,923,668 | — | 297,024,121 | 859,947,789 | 815,013,881 |
| Amount due to an associate | — | 17,262,236 | — | — | 17,262,236 | 17,262,236 |
| | | 1,132,794,505 | — | 879,352,747 | 2,012,147,252 | 1,803,147,269 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2012 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 43,039,773 | — | — | 43,039,773 | 43,039,773 |
| Other payables | — | 68,917,773 | — | — | 68,917,773 | 68,917,773 |
| Amount due to an intermediate holding company | 7.26 | 56,651,847 | 105,752,389 | 458,514,190 | 620,918,426 | 514,637,212 |
| Amounts due to fellow subsidiaries | 2.14 | 563,750,294 | — | 297,024,121 | 860,774,415 | 831,911,539 |
| Amount due to an associate | — | 42,969,578 | — | — | 42,969,578 | 42,969,578 |
| | | 775,329,265 | 105,752,389 | 755,538,311 | 1,636,619,965 | 1,501,475,875 |

**(c) Fair value**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Yunnan Hidili Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

**6. REVENUE AND SEGMENT INFORMATION**

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Yunnan Hidili, being the chief operating decision makers, assess the performance and allocate the resources of Yunnan Hidili Group as a whole because Yunnan Hidili Group is mainly engaged in mining. Therefore, the directors of Yunnan Hidili consider that Yunnan Hidili Group only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Yunnan Hidili Group are located in the PRC.

**Information about major customers**

Revenue from customers, other than related parties as disclosed in note 31(a), of the corresponding years contributing over 10% of the total sales of Yunnan Hidili Group are as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Customer A | 44,124,372 | 105,030,588 | N/A* |

* The corresponding revenue did not contribute over 10% of the total sales of Yunnan Hidili Group.

## 7. FINANCE COSTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Interest expense on borrowings wholly repayable within five years: | | | |
| — bank borrowings | 6,924,384 | 401,685 | — |
| — amount due to immediate holding company | 30,758,325 | — | — |
| — amounts due to intermediate holding companies | — | 25,466,337 | 36,338,610 |
| Imputed interest expense on amounts due to fellow subsidiaries | — | 8,210,959 | 16,071,032 |
| | 37,682,709 | 34,078,981 | 52,409,642 |
| Less: Interest capitalised in construction in progress | — | (9,819,965) | (17,924,761) |
| | 37,682,709 | 24,259,016 | 34,484,881 |

## 8. INCOME TAX EXPENSE

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Current tax: | | | |
| PRC Enterprise Income Tax | 3,427,674 | 14,711,271 | 1,294,817 |
| Underprovision in prior years | — | 181,479 | — |
| | 3,427,674 | 14,892,750 | 1,294,817 |
| Deferred tax *(Note 26)* | (94,406) | (33,978) | (30,416) |
| | 3,333,268 | 14,858,772 | 1,264,401 |

No provision for Hong Kong Profits Tax has been made as Yunnan Hidili Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory tax rate of Yunnan Hidili Group is 25% during the Relevant Periods.

The income tax expenses for the year can be reconciled to the profit before taxation as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Profit before tax | 11,765,345 | 48,985,303 | 19,930,721 |
| Tax at applicable tax rate of 25% | 2,941,336 | 12,246,326 | 4,982,680 |
| Tax effect of expenses not deductible for tax purpose | 1,510,713 | 2,297,630 | 4,232,933 |
| Tax effect of income not taxable | (3,722,092) | (7,285,585) | (7,315,023) |
| Tax effect of tax losses not recognised | 1,707,027 | 6,459,881 | 7,190,318 |
| Utilisation of tax losses previously not recognised | — | — | (7,826,507) |
| Underprovision in prior year | — | 181,479 | — |
| Others | 896,284 | 959,041 | — |
| Income tax expenses for the year | 3,333,268 | 14,858,772 | 1,264,401 |

## 9. PROFIT FOR THE YEAR

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Profit for the year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 247,955,291 | 369,434,760 | 307,567,605 |
| Depreciation of property, plant and equipment | 7,006,898 | 6,161,548 | 8,675,468 |
| Provision for restoration and environmental cost *(Note 24)* | 220,985 | 199,084 | 109,891 |
| Impairment loss (reversal of impairment loss) recognised in respect of | | | |
| — trade receivables | — | 1,078 | — |
| — other receivables | 60,000 | (60,000) | 73,165 |
| Loss on disposal of property, plant and equipment | 3,585,132 | — | — |
| Salaries and other benefits | 16,170,701 | 18,504,273 | 15,434,988 |
| Retirement benefit costs | 1,011,736 | 1,065,407 | 2,392,027 |
| Total staff costs | 17,182,437 | 19,569,680 | 17,827,015 |
| Bank interest income | (45,836) | (64,312) | (86,614) |
| Imputed interest income on amounts due from fellow subsidiaries | (14,888,369) | (29,001,308) | (27,366,887) |
| Imputed interest income on amount due from intermediate holding company | — | (141,033) | (1,893,206) |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

During the Relevant Periods, no fees or other emoluments was paid or payable by Yunnan Hidili Group to its directors.

During the Relevant Periods, no remuneration was paid by Yunnan Hidili Group to its directors as an inducement to join or upon joining Yunnan Hidili or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

**Employees' emoluments**

The five highest paid individuals for the Relevant Periods were as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Salaries and other allowances | 1,083,486 | 1,545,205 | 1,442,738 |
| Contributions to retirement benefit schemes | 6,413 | 11,153 | 18,693 |
| | 1,089,899 | 1,556,358 | 1,461,431 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Yunnan Hidili Group to the five highest paid individuals as an inducement to join Yunnan Hidili Group as compensation for loss of office.

## 11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | | |
| At 1 January 2010 | 12,549,633 | 829,893,302 | 15,191,125 | 3,239,269 | 727,921 | 44,773,008 | 906,374,258 |
| Additions | — | 7,759,183 | 7,230,299 | 5,540,625 | 1,207,588 | 90,102,473 | 111,840,168 |
| Acquired by acquisition of subsidiary *(Note 28)* | 4,576,350 | 9,872,870 | 1,581,452 | — | — | — | 16,030,672 |
| Transfer | — | — | — | — | 144,616 | (144,616) | — |
| Disposals | (10,879,625) | (345,431,634) | (6,404,614) | (3,608,659) | (288,726) | (20,326,318) | (386,939,576) |
| At 31 December 2010 | 6,246,358 | 502,093,721 | 17,598,262 | 5,171,235 | 1,791,399 | 114,404,547 | 647,305,522 |
| Additions | 112,783 | 73,258,501 | 50,360,831 | 633,248 | 1,725,352 | 194,850,096 | 320,940,811 |
| Transfer | 831,223 | — | — | — | — | (831,223) | — |
| At 31 December 2011 | 7,190,364 | 575,352,222 | 67,959,093 | 5,804,483 | 3,516,751 | 308,423,420 | 968,246,333 |
| Additions | — | 51,358,000 | 11,942,179 | 271,600 | — | 79,827,442 | 143,399,221 |
| Transfer | 254,056 | 284,905,963 | 5,129,603 | — | 1,184,278 | (291,473,900) | — |
| At 31 December 2012 | 7,444,420 | 911,616,185 | 85,030,875 | 6,076,083 | 4,701,029 | 96,776,962 | 1,111,645,554 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 January 2010 | 241,549 | 689,001 | 1,434,016 | 173,115 | 43,682 | — | 2,581,363 |
| Charge for the year | 609,166 | 3,029,948 | 2,085,153 | 1,120,335 | 162,296 | — | 7,006,898 |
| Eliminated on disposals | (15,620) | — | (382,323) | (91,945) | (904) | — | (490,792) |
| At 31 December 2010 | 835,095 | 3,718,949 | 3,136,846 | 1,201,505 | 205,074 | — | 9,097,469 |
| Charge for the year | 210,179 | 2,316,391 | 2,408,431 | 956,163 | 270,384 | — | 6,161,548 |
| At 31 December 2011 | 1,045,274 | 6,035,340 | 5,545,277 | 2,157,668 | 475,458 | — | 15,259,017 |
| Charge for the year | 308,920 | 1,700,252 | 5,386,532 | 911,128 | 368,636 | — | 8,675,468 |
| At 31 December 2012 | 1,354,194 | 7,735,592 | 10,931,809 | 3,068,796 | 844,094 | — | 23,934,485 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 5,411,263 | 498,374,772 | 14,461,416 | 3,969,730 | 1,586,325 | 114,404,547 | 638,208,053 |
| At 31 December 2011 | 6,145,090 | 569,316,882 | 62,413,816 | 3,646,815 | 3,041,293 | 308,423,420 | 952,987,316 |
| At 31 December 2012 | 6,090,226 | 903,880,593 | 74,099,066 | 3,007,287 | 3,856,935 | 96,776,962 | 1,087,711,069 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 3 to 8 years but in the opinion of the directors of the Yunnan Hidili Group, the Yunnan Hidili Group will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method based on the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

During the year ended 31 December 2012, the operations in mines of Yunnan Hidili Group have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB96,776,962 and RMB990,934,107, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Yunnan Hidili Group considers that Yunnan Hidili Group will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Yunnan Hidili for the next five years, taking into account the best estimates of management of Yunnan Hidili Group concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Yunnan Hidili Group. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Yunnan Hidili Group has determined that there is no impairment of the mining structure and mining rights.

## 13. DEPOSITS

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Deposit paid for acquisition of associates | 103,571,433 | — | — |
| Deposit paid for acquisition of available-for-sale investment | 54,700,000 | — | — |
| Deposit paid for investments *(note 27)* | 100,000,000 | 50,000,000 | — |
| Other deposits | 1,000,000 | 1,000,000 | 1,000,000 |
| | 259,271,433 | 51,000,000 | 1,000,000 |

## 14. INTERESTS IN ASSOCIATES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Cost of investment in associates — unlisted | — | 103,571,433 | 103,571,433 |
| Share of post-acquisition loss and other comprehensive expense | — | — | (893,976) |
| | — | 103,571,433 | 102,677,457 |

Details of the Yunnan Hidili Group's associates at the end of the reporting period are as follows:

| Name of associate | Place of establishment and operation | Proportion of ownership interest and voting power held by the Company As at 31 December 2010 | 2011 | 2012 | Principal activities |
|---|---|---|---|---|---|
| 富源金通煤焦有限公司 Translated as Fuyuan Jintong Coking Company Limited ("Fuyuan Jintong") | The PRC | — | 47.38% | 47.38% | Warehouse management and provision of railway logistics service |
| 富源昆鐵選煤有限公司 Translated as Fuyuan Kuntie Coal Washing Company Limited ("Fuyuan Kuntie") | The PRC | — | 20% | 20% | Clean coal washing and processing |

At 31 December 2011 and 2012, included in the cost of investments in associates is goodwill of RMB55,395,000 and RMB14,995,000 arising from acquisition of Fuyuan Jintong and Fuyuan Kuntie respectively.

Summarised financial information in respect of the Group's associates is set out below.

| | As at 31 December 2010 | 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Total assets | — | 137,571,662 | 174,015,999 |
| Total liabilities | — | (52,535,599) | (90,690,022) |
| Net assets | — | 85,036,063 | 83,325,977 |
| Yunnan Hidili Group's share of net assets | — | 33,181,433 | 32,287,457 |
| Total revenue | — | — | 241,500,665 |
| Total loss and other comprehensive expense for the year | — | — | 1,710,087 |
| Yunnan Hidili Group's share of losses of associates for the year | — | — | 893,976 |

## 15. AVAILABLE-FOR-SALE INVESTMENT

| | As at 31 December 2010 | 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Available-for-sale investment comprise: | | | |
| Unlisted equity security | — | 54,700,000 | 54,700,000 |

The unlisted equity investment represent 18% equity interest in an entity established in the PRC. The principal activity of the investee is provision of transportation services. The unlisted equity is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of Yunnan Hidili are of the opinion that their fair values cannot be measured reliably.

## 16. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Coal products | 48,201,571 | 19,288,952 | 15,211,380 |
| Auxiliary materials and spare parts | 12,404,875 | 13,592,331 | 5,571,390 |
| | 60,606,446 | 32,881,283 | 20,782,770 |

## 17. BILLS AND TRADE RECEIVABLES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Trade receivables | 27,607,308 | 10,076,408 | 5,913,321 |
| Less: Allowance for doubtful debts | — | (1,078) | — |
| | 27,607,308 | 10,075,330 | 5,913,321 |
| Bills receivables | 300,000 | 20,180,000 | 103,720,000 |
| | 27,907,308 | 30,255,330 | 109,633,321 |

The Yunnan Hidili Group generally allows an average credit period ranging from 90–120 days to its trade customers and the average credit period for bills receivables is ranging from 90–180 days.

The aged analysis of bills and trade receivables, net of allowances presented based on the invoice date at the end of the reporting period which approximately respective revenue recognition dates, is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Aged: | | | |
| 0–90 days | 27,797,459 | 13,373,822 | 65,079,816 |
| 91–120 days | 109,849 | 5,201,648 | 1,502,120 |
| 121–180 days | — | 11,650,000 | 40,000,000 |
| 181–365 days | — | 29,860 | 3,000,000 |
| Over 365 days | — | — | 51,385 |
| | 27,907,308 | 30,255,330 | 109,633,321 |

Before accepting any new customer, the Yunnan Hidili Group will assess credit worthiness by customer. As the customers are mostly the renowned steel manufacturer, therefore based on the past history, the eventual collectability of the receivables neither past due nor impaired is expected.

Included in the Yunnan Hidili Group's bills and trade receivables at 31 December 2010, 31 December 2011 and 31 December 2012 are debtors with aggregate carrying amount of nil, RMB29,860 and RMB3,051,385, respectively which are past due as at the reporting date for which the Yunnan Hidili Group has not provided for impairment loss as assessed based on the management's past experience and subsequent settlement pattern of these receivables.

## 18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December, 2010, 31 December 2011 and 31 December 2012 included in other receivables, deposits and prepayments are other tax receivables of RMB11,200,876, RMB27,801,396 and RMB10,548,852; and prepayment of nil, nil and RMB2,250,000 for advisory service to Huaneng, a shareholder of Yunnan Hidili, respectively.

## 19. AMOUNTS DUE FROM AND TO RELATED PARTIES

At 31 December 2010, except for amount due from fellow subsidiaries of RMB398,363,969 which will be recovered in two to four year time from initial recognition, amounts due from group companies are expected to be recovered in one year. The effective interest of amounts due from fellow subsidiaries expected to be recovered in two to four year time was ranged from 6.15% to 6.40% per annum. All amounts due from related parties are interest free and unsecured.

Except for amounts due to fellow subsidiaries at 31 December 2010 of RMB43,557,544 which will be settled in four year time from initial recognition, other amounts due to related parties will be settled in one year. In addition, except for amount due to immediate holding company of RMB445,051,180 is interest bearing at 5.76% per annum and repayable on demand, all amounts due to related parties are interest free. All amounts due to related parties are unsecured. The effective interest of amounts due to fellow subsidiaries will be settled to be recovered in four year time is 6.15% per annum.

At 31 December 2011, except for amounts due from an intermediate holding company and fellow subsidiaries of RMB27,659,594 and RMB322,740,204, respectively, which will be recovered in two to four year time from initial recognition, amounts due from related parties are expected to be recovered in one year. The effective interest of amounts due from intermediate holding companies and fellow subsidiaries expected to be recovered in two to four year time was ranged from 6.15% to 6.40% per annum. All amounts due from related parties are interest free and unsecured.

Except for amounts due to fellow subsidiaries at 31 December 2011 of RMB252,090,213 which will be settled in three to four year time from initial recognition and amount due to an intermediate holding company of RMB418,262,551 which will be settled in five years from initial recognition, all amounts due to related parties will be settled in one year. Except for amount due to an intermediate holding company of RMB418,262,551 which borne interest at 8.625% per annum, all amounts due to related parties are interest free. All amounts due to related parties are unsecured. The effective interest of amounts due to fellow subsidiaries expected to be recovered in three to four year time is range from 6.15% to 6.40% per annum.

At 31 December 2012, except for amounts due from an intermediate holding company and fellow subsidiaries of RMB57,526,036 and RMB366,014,800, respectively, which will be recovered in two to four year time from initial recognition, amounts due from related parties are expected to be recovered in one year. The effective interest of amounts due from an intermediate holding company and fellow subsidiaries expected to be recovered in two to four year time was ranged from 6.15% to 6.4% per annum. All amounts due from related parties are interest free and unsecured.

Except for amounts due to fellow subsidiaries at 31 December 2012 of RMB268,161,245 which will be settled in three years time from initial recognition and amounts due to intermediate holding companies of RMB457,985,365 which will be settled in five years, all amounts due to related parties will be settled in one year. Except for amounts due to intermediate holding company of RMB457,985,365 which borne interest range from 5.49% to 8.625% per annum, all amounts due to related parties are interest free. All amounts due to related parties are unsecured. The effective interest of amounts due to fellow subsidiaries expected to be recovered in three years time is range from 6.15% to 6.40% per annum.

Related party is a shareholder of a fellow subsidiary's associate.

There is not credit terms and policies on the trading balances with group companies.

## 20. BANK BALANCES AND CASH

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carried interests at market rates range from 0.35% to 0.50% per annum.

## 21. TRADE PAYABLES

The aged analysis of Yunnan Hidili Group trade payables based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Aged: | | | |
| 0–90 days | 5,030,331 | 20,998,089 | 12,340,137 |
| 91–180 days | 141,348 | 428,230 | 15,604,433 |
| 181–365 days | 72,172 | 11,171 | 4,862,380 |
| Over 365 days | — | 187,836 | 10,232,823 |
| | 5,243,851 | 21,625,326 | 43,039,773 |

The average credit period on purchases of goods is 90 days.

## 22. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2010, 31 December 2011 and 31 December 2012, included in other payables and accrued expense is payable for acquisition of property, plant and equipment of RMB11,992,900, RMB46,500,000 and RMB49,100,000; and other tax payables of RMB5,335,239, nil and RMB6,923,511, respectively.

## 23. BANK BORROWING

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Bank borrowing repayable within one year | 15,000,000 | — | — |

The bank borrowing of the Yunnan Hidili Group was a fixed-rate borrowing at 8.10% per annum.

## 24. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | |
|---|---|
| | *RMB* |
| At 1 January 2010 | — |
| Provision for the year | 220,985 |
| At 31 December 2010 | 220,985 |
| Provision for the year | 199,084 |
| At 31 December 2011 | 420,069 |
| Provision for the year | 109,891 |
| At 31 December 2012 | 529,960 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, the Yunnan Hidili Group is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 25. PAID IN CAPITAL

| | *RMB* |
|---|---|
| Registered and fully paid at 1 January 2010, 31 December 2010 and 2011 | 20,000,000 |
| Capital injection | 10,303,000 |
| Registered and fully paid at 31 December 2012 | 30,303,000 |

On 28 August 2012, the total registered capital of Yunnan Hidili increased from RMB20,000,000 to RMB30,303,000 and Huaneng paid an additional contribution of RMB250,000,000 in September 2012, of which RMB10,303,000 as paid in capital and RMB239,697,000 as capital reserve.

## 26. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Yunnan Hidili Group and movements thereon during the Relevant Period:

| | **Property, plant and equipment** *RMB* |
|---|---|
| At 1 January 2010 | 86,568,179 |
| Arising from acquisition of subsidiaries *(Note 28)* | 2,468,217 |
| Credit to profit or loss | (94,406) |
| At 31 December 2010 | 88,941,990 |
| Credit to profit or loss | (33,978) |
| At 31 December 2011 | 88,908,012 |
| Credit to profit or loss | (30,416) |
| At 31 December 2012 | 88,877,596 |

At 31 December 2010, 31 December 2011 and 31 December 2012, the Yunnan Hidili Group has unused tax losses of approximately RMB6,828,000, RMB32,668,000 and RMB32,169,000 available for offset against future profits. No deferred tax assets has been recognised in respect of such loses due to the unpredictability of future profit streams. All these tax losses will expire during 2012 to 2016.

## 27. NON CASH TRANSACTION

During the year ended 31 December 2012, deposit paid for investment of RMB50,000,000 has transferred to an intermediate holding company and offset amount due to intermediate holding company of RMB50,000,000.

During the year ended 31 December 2010, 31 December 2011 and 31 December 2012, a related company settled its outstanding balances by bills receivables of nil, RMB18,280,000 and RMB99,120,000, respectively.

## 28. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2010, the Yunnan Hidili Group acquired 80% equity interest in Fuyuan Fude, at consideration of RMB800,000. Fuyuan Fude is engaged in coal washing and was acquired so as to continue the expansion of the Yunnan Hidili Group mining operation.

The aggregate net assets acquired by the Yunnan Hidili Group are as follows:

| | *RMB* |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 16,030,672 |
| Bank balances and cash | 541 |
| Other payables | (2,562,996) |
| Bank borrowings | (10,000,000) |
| Deferred tax liability | (2,468,217) |
| | 1,000,000 |
| Non controlling interest | (200,000) |
| | 800,000 |
| Satisfied by: | |
| Deposit paid in 2009 | 800,000 |
| Net cash inflow arising on acquisition: | |
| Bank balances and cash acquired | 541 |

## 29. CAPITAL RISK MANAGEMENT

The Yunnan Hidili Group manage its capital to ensure that the Yunnan Hidili Group will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the debt and equity balance. The overall strategy of Yunnan Hidili Group remains unchanged throughout the Relevant Periods.

The capital structure of the Yunnan Hidili Group consists of debts, which include amounts due to group companies and bank borrowing as disclosed in notes 19 and 23, respectively, net of cash and cash equivalents and equity attributable to owners of Yunnan Hidili, comprising paid in capital and reserves.

The directors of the Yunnan Hidili review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Yunnan Hidili Group will balance its overall capital structure through issue of new debt or the redemption of existing debt.

## 30. CAPITAL COMMITMENTS

| | **As at 31 December** | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | 47,509,842 | 63,562,821 | 61,439,395 |

### 31. RELATED PARTY TRANSACTIONS

**(a) Transactions**

During the year, the Yunnan Hidili Group entered into the following transactions with related parties:

| | **2010** *RMB* | **2011** *RMB* | **2012** *RMB* |
|---|---|---|---|
| Immediate holding company: | | | |
| Interest expense | 30,758,325 | — | — |
| Intermediate holding company: | | | |
| Sales | — | 28,876,212 | 1,073,429 |
| Interest expense | — | 25,466,337 | 36,338,610 |
| Fellow subsidiaries: | | | |
| Sales | 150,247,334 | 137,833,784 | 113,875,258 |
| Purchases | 69,796,686 | 387,893,437 | 178,797,902 |
| Disposal of property, plant and equipment | 383,054,005 | — | — |
| A shareholder: | | | |
| Advisory fee paid and payable | — | — | 750,000 |
| Related party: | | | |
| Sales | 131,169,634 | 134,572,045 | 213,149,264 |
| Purchases | — | 4,761,759 | — |
| Associates: | | | |
| Transportation costs | — | — | 1,468,736 |

**(b)** Details of the balances with related parties are set out in the consolidated statements of financial position and notes 18 and 19.

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Yunnan Hidili Group's mines were resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of Yunnan Hidili Group have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Fuyuan County Kunyuan Coal Industry Co., Ltd. ("**Fuyuan Kunyuan**") for the period from 19 January 2010 (date of establishment) to 31 December 2010 and each of the two years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Fuyuan Kunyuan and certain other subsidiaries of the Company and share transfers.

Fuyuan Kunyuan was established with limited liability in the People's Republic of China (the "**PRC**") on 19 January 2010.

The statutory financial statements of Fuyuan Kunyuan were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Fuyuan Kunyuan for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Fuyuan Kunyuan have prepared the financial statements of Fuyuan Kunyuan for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Fuyuan Kunyuan for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Fuyuan Kunyuan who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Fuyuan Kunyuan as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

## A. FINANCIAL INFORMATION

### Statements of Comprehensive Income

| | Notes | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | For the year ended 31 December 2012 |
|---|---|---|---|---|
| | | *RMB* | *RMB* | *RMB* |
| Revenue | 6 | 38,623,411 | 27,846,618 | 16,838,209 |
| Cost of sales | | (11,794,925) | (9,220,679) | (13,579,835) |
| Gross profit | | 26,828,486 | 18,625,939 | 3,258,374 |
| Other income | | 1,464 | 4,563 | 41,900 |
| Administrative expenses | | (2,537,257) | (2,732,249) | (5,532,436) |
| Finance costs | 7 | (175,230) | (1,895,958) | (6,993,673) |
| Profit (loss) before tax | | 24,117,463 | 14,002,295 | (9,225,835) |
| Taxation | 8 | (6,045,916) | (124,510) | — |
| Profit (loss) and total comprehensive income (expense) for the period/year | 9 | 18,071,547 | 13,877,785 | (9,225,835) |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 310,317,637 | 356,093,498 | 381,496,346 |
| Deposit paid for acquisition of property, plant and equipment | | — | 10,510,000 | — |
| | | 310,317,637 | 366,603,498 | 381,496,346 |
| CURRENT ASSETS | | | | |
| Inventories | *13* | 2,614,514 | 1,610,434 | 679,300 |
| Other receivables, deposits and prepayments | *14* | 3,126,299 | 1,384,243 | 6,135,792 |
| Amount due from immediate holding company | *19* | — | — | 113,732,312 |
| Amount due from an intermediate holding company | *19* | — | — | 91,315,512 |
| Amounts due from fellow subsidiaries | *19* | 23,902,708 | 74,476,663 | 71,363,613 |
| Bank balances | *15* | 121,092 | 443,640 | 266,607 |
| | | 29,764,613 | 77,914,980 | 283,493,136 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *16* | 1,077,915 | 797,758 | 3,673,836 |
| Other payables and accrued expenses | *17* | 4,957,371 | 8,378,309 | 6,567,249 |
| Amount due to immediate holding company | *19* | 5,027,197 | 5,142,633 | — |
| Amounts due to intermediate holding companies | *19* | 7,997,638 | 100,939,075 | 99,065,625 |
| Amounts due to fellow subsidiaries | *19* | 11,892,743 | 6,131,932 | 12,629,278 |
| Tax payables | | 6,045,916 | 6,155,324 | 5,297,427 |
| | | 36,998,780 | 127,545,031 | 127,233,415 |
| NET CURRENT (LIABILITIES) ASSETS | | (7,234,167) | (49,630,051) | 156,259,721 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 303,083,470 | 316,973,447 | 537,756,067 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *20* | 11,923 | 24,115 | 32,570 |
| NET ASSETS | | 303,071,547 | 316,949,332 | 537,723,497 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *18* | 5,000,000 | 5,000,000 | 8,064,500 |
| Reserves | | 298,071,547 | 311,949,332 | 529,658,997 |
| TOTAL EQUITY | | 303,071,547 | 316,949,332 | 537,723,497 |

## Statements of Changes in Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note (i))* | Future development fund *RMB* *(Note (ii))* | Retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 19 January 2010 (date of establishment) | 5,000,000 | 280,000,000 | — | — | — | 285,000,000 |
| Profit and total comprehensive income for the period | — | — | — | — | 18,071,547 | 18,071,547 |
| Transfer | — | — | 2,515,694 | — | (2,515,694) | — |
| At 31 December 2010 | 5,000,000 | 280,000,000 | 2,515,694 | — | 15,555,853 | 303,071,547 |
| Profit and total comprehensive income for the year | — | — | — | — | 13,877,785 | 13,877,785 |
| Transfer | — | — | 1,433,297 | — | (1,433,297) | — |
| At 31 December 2011 | 5,000,000 | 280,000,000 | 3,948,991 | — | 28,000,341 | 316,949,332 |
| Loss and total comprehensive expense for the year | — | — | — | — | (9,225,835) | (9,225,835) |
| Transfer | — | — | 4,797,293 | 12,135 | (4,809,428) | — |
| Capital injection | 3,064,500 | 226,935,500 | — | — | — | 230,000,000 |
| At 31 December 2012 | 8,064,500 | 506,935,500 | 8,746,284 | 12,135 | 13,965,078 | 537,723,497 |

*Notes:*

(i) According to the Articles of Association of Fuyuan Kunyuan, Fuyuan Kunyuan is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Fuyuan Kunyuan while Fuyuan Kunyuan can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Fuyuan Kunyuan.

(ii) Pursuant to the relevant regulations in the PRC, Fuyuan Kunyuan is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit (loss) before tax | 24,117,463 | 14,002,295 | (9,225,835) |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 1,178,661 | 1,323,257 | 1,376,860 |
| Impairment loss recognised on other receivables | — | — | 501,800 |
| Interest expenses | 175,230 | 1,895,958 | 6,993,673 |
| Provision for restoration and environmental costs | 11,923 | 12,192 | 8,455 |
| Interest income | (1,464) | (2,862) | (29,714) |
| Operating cash flows before movements in working capital | 25,481,813 | 17,230,840 | (374,761) |
| (Increase) decrease in inventories | (2,614,514) | 1,004,080 | 931,134 |
| (Increase) decrease in other receivables, deposits and prepayments | (3,126,299) | 1,742,056 | (5,253,349) |
| Increase (decrease) in trade payables | 1,077,915 | (280,157) | 2,876,078 |
| Increase (decrease) in other payables and accrued expenses | 4,957,371 | 3,420,938 | (1,811,060) |
| Cash from (used in) operations | 25,776,286 | 23,117,757 | (3,631,958) |
| Income tax paid | — | (15,102) | (857,897) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 25,776,286 | 23,102,655 | (4,489,855) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipments | (311,496,298) | (57,588,409) | (14,351,421) |
| Advance to fellow subsidiaries | (56,979,946) | (117,451,111) | (106,819,635) |
| Repayment from fellow subsidiaries | 33,077,238 | 66,877,156 | 109,932,685 |
| Advance to immediate holding company | — | — | (113,953,697) |
| Advance to an intermediate holding company | — | — | (94,097,920) |
| Repayment from immediate holding company | — | — | 221,385 |
| Repayment from an intermediate holding company | — | — | 2,782,408 |
| Interest received | 1,464 | 2,862 | 29,714 |
| NET CASH USED IN INVESTING ACTIVITIES | (335,397,542) | (108,159,502) | (216,256,481) |

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| FINANCING ACTIVITIES | | | |
| Capital injection | 285,000,000 | — | 230,000,000 |
| Advance from fellow subsidiaries | 57,663,783 | 37,672,389 | 23,450,597 |
| Interest paid | (175,230) | (1,916,667) | (8,911,960) |
| Advance from immediate holding company | 10,449,605 | 6,115,436 | — |
| Advance from intermediate holding companies | 7,997,638 | 100,916,667 | 5,168,550 |
| Repayment to fellow subsidiaries | (45,771,040) | (43,433,200) | (16,953,251) |
| Repayment to immediate holding company | (5,422,408) | (6,000,000) | (5,142,633) |
| Repayment to intermediate holding companies | — | (7,975,230) | (7,042,000) |
| NET CASH FROM FINANCING ACTIVITIES | 309,742,348 | 85,379,395 | 220,569,303 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 121,092 | 322,548 | (177,033) |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | — | 121,092 | 443,640 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances | 121,092 | 443,640 | 266,607 |

## Notes to the Financial Information

### 1. GENERAL

The principally activities of Fuyuan Kunyuan is mining and sale of raw coal to its group companies. Its immediate holding company is Liupanshui Hidili Industry Company Limited, a sino-foreign owned enterprise established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Fuyuan Kunyuan. In the opinion of the directors of Fuyuan Kunyuan, the ultimate holding company of Fuyuan Kunyuan is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Fuyuan Kunyuan is Jianglang Village, Mohong Town, Fuyuan County, Yunnan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Fuyuan Kunyuan.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Fuyuan Kunyuan has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Fuyuan Kunyuan's financial year beginning on 1 January 2012.

Fuyuan Kunyuan has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

The directors of Fuyuan Kunyuan anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Fuyuan Kunyuan.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Fuyuan Kunyuan has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Fuyuan Kunyuan retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Fuyuan Kunyuan; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Fuyuan Kunyuan and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structure and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Fuyuan Kunyuan's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from "profit before tax" as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Fuyuan Kunyuan's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Fuyuan Kunyuan expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Fuyuan Kunyuan is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Fuyuan Kunyuan has a present obligation as a result of a past event, it is probable that Fuyuan Kunyuan will be required to settle the obligation. Provisions are measured at the directors of Fuyuan Kunyuan's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Fuyuan Kunyuan becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Fuyuan Kunyuan's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits amount due from immediate holding company, amounts due from an intermediate holding company, amounts due from fellow subsidiaries and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Fuyuan Kunyuan derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Fuyuan Kunyuan are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Fuyuan Kunyuan after deducting all of its liabilities. Equity instruments issued by Fuyuan Kunyuan are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amounts due to intermediate holding companies, amount due to immediate holding company and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Fuyuan Kunyuan derecognises financial liabilities when, and only when, Fuyuan Kunyuan's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Fuyuan Kunyuan reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Fuyuan Kunyuan estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Fuyuan Kunyuan's accounting policies, which are described in note 3, the directors of Fuyuan Kunyuan are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value. Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Fuyuan Kunyuan assess annually the residual value and the useful life of the property as well as the reserve of the coal mines, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB310,317,637, RMB356,093,498 and RMB381,496,346 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Fuyuan Kunyuan's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB277,031,493, RMB279,381,165 and RMB322,161,603 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Fuyuan Kunyuan consider that Fuyuan Kunyuan continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Fuyuan Kunyuan to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB277,031,493, RMB279,381,165 and RMB322,161,603, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 26,984,541 | 76,050,072 | 280,218,177 |
| **Financial liabilities** | | | |
| Amortised cost | 26,171,961 | 113,504,310 | 121,009,476 |

### (b) Financial risk management objectives and policies

Fuyuan Kunyuan's major financial instruments include other receivables and deposits, bank balances, trade payables, other payables and amounts due from and to group companies. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Fuyuan Kunyuan manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***(i) Market risk***

*Interest rate risk*

Fuyuan Kunyuan is exposed to cash flow interest rate risk in relation to variable rate bank balances and fair value interest rate risk in relation to certain balances of amounts due to an intermediate holding company which carry fixed interest rate (see notes 15 and 19 for details). The directors of Fuyuan Kunyuan consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Fuyuan Kunyuan currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Fuyuan Kunyuan consider the amount is insignificant.

***(ii) Credit risk***

As at the end of each reporting period, Fuyuan Kunyuan's maximum exposure to credit risk which will cause a financial loss to Fuyuan Kunyuan due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statement of financial position.

Management of Fuyuan Kunyuan reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Fuyuan Kunyuan considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Fuyuan Kunyuan reviews the financial position and repayment abilities of respective group companies, Fuyuan Kunyuan does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

***(iii) Liquidity risk***

In the management of the liquidity risk, Fuyuan Kunyuan monitors and maintains a level of cash and cash equivalents deemed adequate by management of Fuyuan Kunyuan to finance the its operations and mitigate the effects of fluctuations in cash flows.

Fuyuan Kunyuan relies on advances from group companies as a significant source of liquidity. Details of which are set out in note 19.

The financial liabilities carried at amortised cost were required to be settled on demand or less than three months according to respective contractual provision at 31 December 2010, 31 December 2011 and 31 December 2012.

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Fuyuan Kunyuan considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Fuyuan Kunyuan, being the chief operating decision makers, assess the performance and allocate the resources of Fuyuan Kunyuan as a whole because Fuyuan Kunyuan is mainly engaged in mining. Therefore, the directors of Fuyuan Kunyuan consider that Fuyuan Kunyuan only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Fuyuan Kunyuan are located in the PRC.

**Information about major customers**

Revenue from sales of raw coals are entirely contributed from fellow subsidiaries of Fuyuan Kunyuan. Details of related party transactions are disclosed in note 22(a).

## 7. FINANCE COSTS

| | For the period from 19 January 2010 (date of establishment) to 31 December | For the year ended 31 December | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Interest expenses on borrowings wholly repayable within five years: | | | |
| — amount due to an intermediate holding company | 175,230 | 1,916,667 | 8,911,960 |
| Less: Interest capitalised in construction in progress | — | (20,709) | (1,918,287) |
| | 175,230 | 1,895,958 | 6,993,673 |

## 8. TAXATION

No provision for Hong Kong Profits Tax has been made as Fuyuan Kunyuan's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of Fuyuan Kunyuan is 25% during the Relevant Periods.

The taxation during the Relevant Periods can be reconciled to the profit (loss) before tax per statements of comprehensive income as follows:

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Profit (loss) before tax | 24,117,463 | 14,002,295 | (9,225,835) |
| Tax at applicable tax rate of 25% | (6,029,366) | (3,500,574) | 2,306,459 |
| Tax effect of expenses not deductible for tax purpose | (16,550) | (54,139) | (97,165) |
| Effect of tax loss not recognised | — | — | (2,209,294) |
| Others | — | 3,430,203 | — |
| Taxation for the period/year | (6,045,916) | (124,510) | — |

At 31 December 2012, the Group has unused tax loss of approximately RMB8,836,000 available for offset against future profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams. Tax loss will expire in 2017.

## 9. PROFIT (LOSS) FOR THE PERIOD/YEAR

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Profit (loss) for the period/year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 11,794,925 | 9,220,679 | 13,579,835 |
| Interest income | (1,464) | (2,862) | (29,714) |
| Impairment loss recognised on other receivables | — | — | 501,800 |
| Depreciation and amortisation of property, plant and equipment *(note 12)* | 1,178,661 | 1,323,257 | 1,376,860 |
| Salaries and other benefits | 4,766,047 | 5,053,095 | 4,342,232 |
| Retirement benefit costs | 26,897 | 69,083 | 76,972 |
| Total staff costs | 4,792,944 | 5,122,178 | 4,419,204 |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

**Directors' emoluments**

During the Relevant Periods, no fees or other emoluments was paid or payable by Fuyuan Kunyuan to its directors.

During the Relevant Periods, no remuneration was paid by Fuyuan Kunyuan to its directors as an inducement to join or upon joining Fuyuan Kunyuan or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

**Employees' emoluments**

The five highest paid individuals for the Relevant Periods were as follows:

| | For the period from 19 January 2010 (date of establishment) to 31 December | For the year ended 31 December | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Salaries and other allowances | 434,259 | 683,928 | 669,204 |
| Contributions to retirement benefit schemes | 3,911 | 2,276 | 9,506 |
| | 438,170 | 686,204 | 678,710 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Fuyuan Kunyuan to the five highest paid individuals as an inducement to join Fuyuan Kunyuan as compensation for loss of office.

## 11. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | | |
| At 19 January 2010 (date of establishment) | — | — | — | — | — | — | — |
| Additions | 881,418 | 277,927,715 | 3,136,235 | 600,600 | 354,742 | 28,595,588 | 311,496,298 |
| At 31 December 2010 | 881,418 | 277,927,715 | 3,136,235 | 600,600 | 354,742 | 28,595,588 | 311,496,298 |
| Additions | — | 3,168,700 | 2,164,164 | — | 167,357 | 41,598,897 | 47,099,118 |
| Transfer | 548,772 | — | 627,852 | — | — | (1,176,624) | — |
| At 31 December 2011 | 1,430,190 | 281,096,415 | 5,928,251 | 600,600 | 522,099 | 69,017,861 | 358,595,416 |
| Additions | — | — | 4,056,773 | — | 8,723 | 22,714,212 | 26,779,708 |
| Transfer | 250,652 | 43,352,536 | — | — | 63,759 | (43,666,947) | — |
| At 31 December 2012 | 1,680,842 | 324,448,951 | 9,985,024 | 600,600 | 594,581 | 48,065,126 | 385,375,124 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 19 January 2010 (date of establishment) | — | — | — | — | — | — | — |
| Provided for the period | 30,505 | 896,222 | 83,639 | 153,145 | 15,150 | — | 1,178,661 |
| At 31 December 2010 | 30,505 | 896,222 | 83,639 | 153,145 | 15,150 | — | 1,178,661 |
| Provided for the year | 40,940 | 819,028 | 243,916 | 165,057 | 54,316 | — | 1,323,257 |
| At 31 December 2011 | 71,445 | 1,715,250 | 327,555 | 318,202 | 69,466 | — | 2,501,918 |
| Provided for the year | 53,080 | 572,098 | 615,532 | 76,413 | 59,737 | — | 1,376,860 |
| At 31 December 2012 | 124,525 | 2,287,348 | 943,087 | 394,615 | 129,203 | — | 3,878,778 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 850,913 | 277,031,493 | 3,052,596 | 447,455 | 339,592 | 28,595,588 | 310,317,637 |
| At 31 December 2011 | 1,358,745 | 279,381,165 | 5,600,696 | 282,398 | 452,633 | 69,017,861 | 356,093,498 |
| At 31 December 2012 | 1,556,317 | 322,161,603 | 9,041,937 | 205,985 | 465,378 | 48,065,126 | 381,496,346 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 3 years but in the opinion of the directors of Fuyuan Kunyuan, Fuyuan Kunyuan will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

The legal titles of the mining rights have been granted by the relevant government authorities as at 31 December 2010, 31 December 2011 and 31 December 2012.

During the year ended 31 December 2012, the operation in mines of Fuyuan Kunyuan have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB48,065,126 and RMB333,431,220, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Fuyuan Kunyuan considers that Fuyuan Kunyuan will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Fuyuan Kunyuan for the next five years, taking into account the best estimates of management of Fuyuan Kunyuan concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Fuyuan Kunyuan. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Fuyuan Kunyuan has determined that there is no impairment of the mining structure and mining rights.

## 13. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Coal products | 410,872 | 577,196 | — |
| Auxiliary materials and spare parts | 2,203,642 | 1,033,238 | 679,300 |
| | 2,614,514 | 1,610,434 | 679,300 |

## 14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2012, included in other receivables, deposits and prepayments is an amount of RMB2,070,000 prepayment for advisory service to Huaneng, a shareholder of Fuyuan Kunyuan.

## 15. BANK BALANCES

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carry interests at market rates at range from 0.35% to 0.50% per annum.

## 16. TRADE PAYABLES

The aged analysis of Fuyuan Kunyuan's trade payables and based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 1,077,915 | 797,758 | 1,935,720 |
| 91–180 days | — | — | 1,422,430 |
| 181–365 days | — | — | 308,441 |
| Over 365 days | — | — | 7,245 |
| | 1,077,915 | 797,758 | 3,673,836 |

The average credit period on purchases of goods is 90 days.

## 17. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2010, 31 December 2011 and 31 December 2012, included in other payables and accrued expenses is other tax payables of RMB3,779,638, RMB7,200,085, nil, respectively.

## 18. PAID IN CAPITAL

| | *RMB* |
|---|---|
| Registered and paid in capital at 19 January 2010 (date of establishment), 31 December 2010 and 31 December 2011 | 5,000,000 |
| Capital injection | 3,064,500 |
| Registered and paid in capital at 31 December 2012 | 8,064,500 |

Fuyuan Kunyuan was established with registered capital of RMB5,000,000 on 19 January 2010. The registered capital was fully paid at the date of establishment. On 28 August 2012, the total registered capital of Fuyuan Kunyuan increased from RMB5,000,000 to RMB8,064,500 and Huaneng paid an additional contribution of RMB230,000,000 in September 2012, of which RMB3,064,500 as paid in capital and RMB226,935,500 as capital reserve.

## 19. AMOUNTS DUE FROM AND TO GROUP COMPANIES

Except for amount due to an intermediate holding company at 31 December 2010, 31 December 2011 and 31 December 2012 of RMB2,400,000, RMB100,939,075 and RMB99,065,625, respectively which bear interest ranged from 7.97% to 8.63% per annum, other amounts due from and to group companies are interest free. All balances are unsecured and repayable on demand.

There is no credit terms and policies on the trading balances with group companies.

## 20. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | *RMB* |
|---|---|
| At 19 January 2010 (date of establishment) | — |
| Provision for the period | 11,923 |
| At 31 December 2010 | 11,923 |
| Provision for the year | 12,192 |
| At 31 December 2011 | 24,115 |
| Provision for the year | 8,455 |
| At 31 December 2012 | 32,570 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Fuyuan Kunyuan is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 21. CAPITAL RISK MANAGEMENT

Fuyuan Kunyuan manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fuyuan Kunyuan remains unchanged throughout the Relevant Period.

The capital structure of Fuyuan Kunyuan consists of debts, which include amounts due to group companies as disclosed in note 19, net of cash and cash equivalents and equity attributable to owners of Fuyuan Kunyuan, comprising paid in capital, reserves and retained profits.

The directors of Fuyuan Kunyuan review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Fuyuan Kunyuan will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

### 22. RELATED PARTY TRANSACTIONS

During the Relevant Periods, Fuyuan Kunyuan entered into the following transactions with related parties:

**(a) Transactions**

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Immediate holding company: | | | |
| Purchases | 910,229 | 5,139,917 | — |
| Fellow subsidiaries: | | | |
| Purchases | 1,215,337 | 1,703,138 | 4,678,285 |
| Sales | 38,623,411 | 27,846,618 | 16,838,209 |
| Purchase of property, plant and equipment | 15,594,654 | — | — |
| Intermediate holding company | | | |
| Interest expenses | 175,230 | 1,916,667 | 8,911,960 |
| A shareholder: | | | |
| Advisory fee paid and payable | — | — | 690,000 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 14 and 19.

### 23. CAPITAL COMMITMENTS

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided | 2,238,066 | 7,313,679 | 6,528,280 |

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Fuyuan Kunyuan's mine was resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Fuyuan Kunyuan have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

Deloitte.
德勤

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25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Fuyuan County Xiangda Coal Mine Co., Ltd. ("**Fuyuan Xiangda**") for each of the three years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Fuyuan Xiangda and certain other subsidiaries of the Company and share transfers.

Fuyuan Xiangda was established with limited liability in the People's Republic of China (the "**PRC**") on 3 July 2008.

The statutory financial statements of Fuyuan Xiangda were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Fuyuan Xiangda for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Fuyuan Xiangda have prepared the financial statements of Fuyuan Xiangda for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Fuyuan Xiangda for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Fuyuan Xiangda who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Fuyuan Xiangda as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information which indicates that Fuyuan Xiangda's current liabilities exceeded its current assets by RMB218,522,444 as at 31 December 2012. As described in note 1 to the Financial Information, the Company has agreed to provide financial support to Fuyuan Xiangda to meet in full its financial obligations as and when they fall due in the foreseeable future. However, the Company's going concern is dependent on the successful implementation of a number of measures as disclosed in note 1 to the Financial Information to improve its financial position. The eventual success of these measures cannot presently be determined and accordingly this indicates the existence of a material uncertainty which may cast significant doubt about Fuyuan Xiangda's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from a failure of the Company to implement such measures as disclosed in note 1 to the Financial Information.

## A. FINANCIAL INFORMATION

### Statements of Comprehensive Income

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | 2010 | 2011 | 2012 |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| Revenue | 6 | 75,528,505 | 64,256,199 | 48,833,549 |
| Cost of sales | | (40,633,863) | (23,012,983) | (21,372,408) |
| Gross profit | | 34,894,642 | 41,243,216 | 27,461,141 |
| Other income | | 49,991 | 15,051 | 3,112,447 |
| Administrative expenses | | (7,372,959) | (8,573,284) | (8,301,369) |
| Finance costs | 7 | (5,956,758) | (4,764,926) | (12,882,584) |
| Profit before tax | | 21,614,916 | 27,920,057 | 9,389,635 |
| Income tax expense | 8 | (4,975,973) | (8,810,167) | (4,923,164) |
| Profit and total comprehensive income for the year | 9 | 16,638,943 | 19,109,890 | 4,466,471 |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 147,817,295 | 297,713,957 | 308,867,205 |
| Amount due from a shareholder | *19* | — | — | 48,166,688 |
| Amounts due from fellow subsidiaries | *19* | — | — | 78,796,827 |
| | | 147,817,295 | 297,713,957 | 435,830,720 |
| CURRENT ASSETS | | | | |
| Inventories | *13* | 6,097,612 | 4,406,078 | 11,219,294 |
| Bills and trade receivables | *14* | 620,000 | 2,600,000 | 33,946,391 |
| Other receivables, deposits and prepayments | *15* | 4,580,805 | 4,242,279 | 4,363,900 |
| Amount due from a shareholder | *19* | — | 13,276,322 | — |
| Amounts due from fellow subsidiaries | *19* | 16,197,695 | 18,828,456 | 3,917,789 |
| Bank balances and cash | *16* | 24,868 | 16,416 | 648,382 |
| | | 27,520,980 | 43,369,551 | 54,095,756 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *17* | 393,747 | 3,348,943 | 6,806,683 |
| Other payables and accrued expenses | *18* | 3,163,484 | 20,976,486 | 16,498,794 |
| Amount due to a shareholder | *19* | 10,144,521 | 33,956,664 | 31,439,252 |
| Amount due to an intermediate holding company | *19* | 123,926,758 | 97,725,000 | 106,143,000 |
| Amounts due to fellow subsidiaries | *19* | 14,127,460 | 217,580 | 100,941,622 |
| Tax payables | | 4,975,973 | 10,032,074 | 10,788,849 |
| | | 156,731,943 | 166,256,747 | 272,618,200 |
| NET CURRENT LIABILITIES | | (129,210,963) | (122,887,196) | (218,522,444) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 18,606,332 | 174,826,761 | 217,308,276 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *20* | 105,495 | 187,162 | 324,479 |
| Amounts due to fellow subsidiaries | *19* | — | 102,896,022 | 109,405,584 |
| Other payables | *18* | — | 14,000,000 | 10,500,000 |
| | | 105,495 | 117,083,184 | 120,230,063 |
| NET ASSETS | | 18,500,837 | 57,743,577 | 97,078,213 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *21* | 12,000,000 | 12,000,000 | 20,339,000 |
| Reserves | | 6,500,837 | 45,743,577 | 76,739,213 |
| TOTAL EQUITY | | 18,500,837 | 57,743,577 | 97,078,213 |

## Statements of Changes In Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note (i))* | Future development fund *RMB* *(Note (ii))* | (Accumulated loss) retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 12,000,000 | — | — | — | (10,138,106) | 1,861,894 |
| Profit and total comprehensive income for the year | — | — | — | — | 16,638,943 | 16,638,943 |
| Transfer | — | — | 39,295 | — | (39,295) | — |
| At 31 December 2010 | 12,000,000 | — | 39,295 | — | 6,461,542 | 18,500,837 |
| Profit and total comprehensive income for the year | — | — | — | — | 19,109,890 | 19,109,890 |
| Deemed contribution from interest free loans granted by fellow subsidiaries | — | — | — | — | 20,132,850 | 20,132,850 |
| Transfer | — | — | 4,538,071 | — | (4,538,071) | — |
| At 31 December 2011 | 12,000,000 | — | 4,577,366 | — | 41,166,211 | 57,743,577 |
| Profit and total comprehensive income for the year | — | — | — | — | 4,466,471 | 4,466,471 |
| Deemed distribution on interest free loans granted to fellow subsidiaries and a shareholder | — | — | — | — | (25,131,835) | (25,131,835) |
| Transfer | — | — | 7,486,475 | 8,043 | (7,494,518) | — |
| Capital injection | 8,339,000 | 51,661,000 | — | — | — | 60,000,000 |
| At 31 December 2012 | 20,339,000 | 51,661,000 | 12,063,841 | 8,043 | 13,006,329 | 97,078,213 |

*Notes:*

(i) According to the Articles of Association of Fuyuan Xiangda, Fuyuan Xiangda is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Fuyuan Xiangda while Fuyuan Xiangda can make additional appropriation to statutory surplus reserve at its own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Fuyuan Xiangda.

(ii) Pursuant to the relevant regulations in the PRC, Fuyuan Xiangda is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit before tax | 21,614,916 | 27,920,057 | 9,389,635 |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 3,304,031 | 4,765,059 | 6,084,347 |
| Imputed interest income | — | — | (2,579,567) |
| Interest expenses | 5,956,758 | 4,764,926 | 12,882,584 |
| Interest income | (7,611) | (3,580) | (6,967) |
| Loss on disposal of property, plant and equipment | 58,972 | — | — |
| Provision for restoration and environmental cost | 105,495 | 81,667 | 137,317 |
| Operating cash flows before movements in working capital | 31,032,561 | 37,528,129 | 25,907,349 |
| Increase in bills and trade receivables | (620,000) | (1,980,000) | (31,346,391) |
| (Increase) decrease in inventories | (4,972,754) | 1,691,534 | (6,813,216) |
| (Increase) decrease in other receivables, deposits and prepayments | (2,507,820) | 338,526 | (121,621) |
| (Decrease) increase in trade payables | (2,929,890) | 2,955,196 | 3,457,740 |
| Increase in other payables and accrued expenses | 2,642,067 | 6,047,705 | 3,787,605 |
| Cash from (used in) operations | 22,644,164 | 46,581,090 | (5,128,534) |
| Income taxes paid | — | (3,754,066) | (4,166,389) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 22,644,164 | 42,827,024 | (9,294,923) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | (65,721,215) | (128,683,010) | (23,457,914) |
| Advance to a shareholder | — | (22,021,679) | (66,871,760) |
| Advance to fellow subsidiaries | (68,993,109) | (40,793,035) | (97,153,188) |
| Repayment from a shareholder | — | 8,745,357 | 22,397,402 |
| Repayment from fellow subsidiaries | 52,795,414 | 38,162,274 | 20,298,752 |
| Interest received | 7,611 | 3,580 | 6,967 |
| NET CASH USED IN INVESTING ACTIVITIES | (81,911,299) | (144,586,513) | (144,779,741) |

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| FINANCING ACTIVITIES | | | |
| Advance from a shareholder | 49,811,145 | 26,476,851 | 10,688 |
| Interest paid | (5,956,758) | (4,978,340) | (14,927,562) |
| Advances from fellow subsidiaries | 92,742,027 | 144,619,761 | 198,050,000 |
| Advance from an intermediate holding company | 123,926,758 | 97,725,000 | 8,418,000 |
| Repayment to an intermediate holding company | — | (123,926,758) | — |
| Repayment of long term payable | — | — | (3,500,000) |
| Repayment to fellow subsidiaries | (86,907,067) | (35,500,769) | (90,816,396) |
| Repayment to a shareholder | (118,063,015) | (2,664,708) | (2,528,100) |
| Capital injection | — | — | 60,000,000 |
| NET CASH FROM FINANCING ACTIVITIES | 55,553,090 | 101,751,037 | 154,706,630 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (3,714,045) | (8,452) | 631,966 |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 3,738,913 | 24,868 | 16,416 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash | 24,868 | 16,416 | 648,382 |

## Notes to the Financial Information

### 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The principal activities of Fuyuan Xiangda is mining and sale of raw coal. Fuyuan Xiangda is owned as to 41.3% by Liupanshui Hidili Industry Co., Limited ("**Liupanshui Hidili**") and 17.7% by Sichuan Hidili Industry Co., Limited ("**Sichuan Hidili**"); and 40% by Huaneng, companies established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Fuyuan Xiangda. In the opinion of the directors of Fuyuan Xiangda, the ultimate holding company of Fuyuan Xiangda is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Fuyuan Xiangda is Baima Village, Dahe Town, Fuyuan County, Yunnan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Fuyuan Xiangda.

In preparing the Underlying Financial Statements, the directors of Fuyuan Xiangda have taken into consideration that Fuyuan Xiangda's current liabilities exceeded its current assets by RMB218,522,444 as at 31 December 2012.

The Financial Information has been prepared on a going concern basis because the Company has agreed to provide financial support to Fuyuan Xiangda to meet in full its financial obligations as and when they fall due in the foreseeable future. The Company has been implementing a number of measures to improve its financial position, including but not limited to: (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities of not less than RMB2.5 billion; (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million; and (3) proposed disposal of 50% equity interests in certain of its subsidiaries for a total consideration of RMB2.4 billion, details of which are set out in the Company's announcement dated 24 May 2013. The directors of Fuyuan Xiangda believe that the above measures can be successfully implemented and therefore the Company will have sufficient working capital to finance the operations of Fuyuan Xiangda and Fuyuan Xiangda can meet its financial obligations as and when they fall due for the foreseeable future.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Fuyuan Xiangda has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Fuyuan Xiangda's financial year beginning on 1 January 2012.

Fuyuan Xiangda has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Fuyuan Xiangda anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Fuyuan Xiangda.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Fuyuan Xiangda has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Fuyuan Xiangda retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Fuyuan Xiangda; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Fuyuan Xiangda and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress and mining structures and mining rights, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Fuyuan Xiangda's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Fuyuan Xiangda's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Fuyuan Xiangda expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Fuyuan Xiangda is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Fuyuan Xiangda has a present obligation as a result of a past event, it is probable that Fuyuan Xiangda will be required to settle the obligation. Provisions are measured at the directors of Fuyuan Xiangda's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Fuyuan Xiangda becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Fuyuan Xiangda's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bills and trade receivables, other receivables and deposits, amount due from a shareholder, amounts due from fellow subsidiaries and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Fuyuan Xiangda derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Fuyuan Xiangda are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Fuyuan Xiangda after deducting all of its liabilities. Equity instruments issued by Fuyuan Xiangda are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amounts due to an intermediate holding company, amount due to a shareholder and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Fuyuan Xiangda derecognises financial liabilities when, and only when, Fuyuan Xiangda's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Fuyuan Xiangda reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Fuyuan Xiangda estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Fuyuan Xiangda's accounting policies, which are described in note 3, the directors of Fuyuan Xiangda are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value.

Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Fuyuan Xiangda assess annually the residual value and the useful life of the property, plant and equipment as well as the reserve of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB147,817,295, RMB297,713,957 and RMB308,867,205 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Fuyuan Xiangda's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB30,060,502, RMB55,512,204 and RMB102,674,638 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Fuyuan Xiangda consider that Fuyuan Xiangda continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Fuyuan Xiangda to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB30,060,502, RMB55,512,204 and RMB102,674,638, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 17,811,637 | 34,987,316 | 166,251,821 |
| **Financial liabilities** | | | |
| Amortised cost | 149,071,591 | 267,214,636 | 376,353,998 |

**(b) Financial risk management objectives and policies**

Fuyuan Xiangda's major financial instruments include bills and trade receivables, other receivables and deposits, bank balances, trade payables, other payables and amounts due from and to group companies. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Fuyuan Xiangda manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***(i) Market risk***

*Interest rate risk*

Fuyuan Xiangda is exposed to cash flow interest rate risk in relation to variable rate bank balances and interest bearing payables for acquisitions of mining structures and mining rights (see notes 16 and 18 for details) and fair value interest rate risk in relation to certain balances of amounts due from and to related parties which carry fixed interest rate (see note 19 for details). The directors of Fuyuan Xiangda consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Fuyuan Xiangda currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Fuyuan Xiangda consider the amount is insignificant.

***(ii) Credit risk***

As at the end of each reporting period, Fuyuan Xiangda's maximum exposure to credit risk which will cause a financial loss to Fuyuan Xiangda due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statement of financial position.

Management of Fuyuan Xiangda reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Fuyuan Xiangda considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Fuyuan Xiangda reviews the financial position and repayment abilities of respective group companies, Fuyuan Xiangda does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

***(iii) Liquidity risk***

In the management of the liquidity risk, Fuyuan Xiangda monitors and maintains a level of cash and cash equivalents deemed adequate by management of Fuyuan Xiangda to finance its operations and mitigate the effects of fluctuations in cash flows.

Fuyuan Xiangda relies on advances from group companies as a significant source of liquidity. Details of which are set out in note 19.

At 31 December 2012, Fuyuan Xiangda had net current liabilities of RMB218,522,444. As the Company has agreed to provide financial support to Fuyuan Xiangda to meet in full its financial obligations as they fall due in the foreseeable future, the directors of Fuyuan Xiangda consider the liquidity risk of Fuyuan Xiangda is insignificant.

The following tables detail Fuyuan Xiangda's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Fuyuan Xiangda can be required to pay.

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2010 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 393,747 | — | — | 393,747 | 393,747 |
| Other payables | — | 479,105 | — | — | 479,105 | 479,105 |
| Amount due to a shareholder | — | 10,144,521 | — | — | 10,144,521 | 10,144,521 |
| Amounts due to fellow subsidiaries | — | 14,127,460 | — | — | 14,127,460 | 14,127,460 |
| Amount due to an intermediate holding company | 5.76 | 123,926,758 | — | — | 123,926,758 | 123,926,758 |
| | | 149,071,591 | — | — | 149,071,591 | 149,071,591 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2011 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 3,348,943 | — | — | 3,348,943 | 3,348,943 |
| Other payables | 1.20 | 15,108,927 | 3,542,000 | 10,626,000 | 29,276,927 | 29,070,427 |
| Amount due to a shareholder | — | 33,956,664 | — | — | 33,956,664 | 33,956,664 |
| Amount due to an intermediate holding company | 8.625 | 97,725,000 | — | — | 97,725,000 | 97,725,000 |
| Amounts due to fellow subsidiaries | 6.15 | 217,580 | — | 119,775,531 | 119,993,111 | 103,113,602 |
| | | 150,357,114 | 3,542,000 | 130,401,531 | 284,300,645 | 267,214,636 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2012 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 6,806,683 | — | — | 6,806,683 | 6,806,683 |
| Other payables | 1.20 | 11,156,357 | 3,542,000 | 7,084,000 | 21,782,357 | 21,617,857 |
| Amount due to a shareholder | — | 31,439,252 | — | — | 31,439,252 | 31,439,252 |
| Amount due to an intermediate holding company | 8.625 | 106,143,000 | — | — | 106,143,000 | 106,143,000 |
| Amounts due to fellow subsidiaries | 6.15 | 100,941,622 | — | 119,775,531 | 220,717,153 | 210,347,206 |
| | | 256,486,914 | 3,542,000 | 126,859,531 | 386,888,445 | 376,353,998 |

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Fuyuan Xiangda considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Fuyuan Xiangda, being the chief operating decision makers, assess the performance and allocate the resources of Fuyuan Xiangda as a whole because Fuyuan Xiangda is mainly engaged in mining. Therefore, the directors of Fuyuan Xiangda consider that Fuyuan Xiangda only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Fuyuan Xiangda are located in the PRC.

**Information about major customers**

Revenue from customers, other than related parties as disclosed in note 24(a), of the corresponding years contributing over 10% of the total sales of Fuyuan Xiangda are as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Customer A | N/A* | N/A* | 12,579,865 |
| Customer B | 17,469,983 | 16,434,144 | N/A* |

* The corresponding revenue did not contribute over 10% of the total sales of Fuyuan Xiangda.

## 7. FINANCE COSTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Interest expenses on borrowings wholly repayable within five years: | | | |
| — amount due to an intermediate holding company | 5,956,758 | 1,725,000 | 8,418,000 |
| — amounts due to fellow subsidiaries | — | 3,253,340 | 6,509,562 |
| | 5,956,758 | 4,978,340 | 14,927,562 |
| Less: Interest capitalised in construction in progress | — | (213,414) | (2,044,978) |
| | 5,956,758 | 4,764,926 | 12,882,584 |

## 8. INCOME TAX EXPENSE

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Current tax: | | | |
| PRC Enterprise Income Tax | (4,975,973) | (8,814,525) | (4,923,164) |
| Overprovision in prior year | — | 4,358 | — |
| | (4,975,973) | (8,810,167) | (4,923,164) |

No provision for Hong Kong Profits Tax has been made as Fuyuan Xiangda's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of Fuyuan Xiangda is 25% during the Relevant Periods.

The taxation during the Relevant Periods can be reconciled to the profit before tax per statements of comprehensive income as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Profit before tax | 21,614,916 | 27,920,057 | 9,389,635 |
| Tax at applicable tax rate of 25% | (5,403,729) | (6,980,014) | (2,347,409) |
| Tax effect of expenses not deductible for tax purpose | (167,156) | (1,239,599) | (3,220,647) |
| Tax effect of income not taxable for tax purpose | — | — | 644,892 |
| Overprovision in prior years | — | 4,358 | — |
| Others | 594,912 | (594,912) | — |
| Income tax expense for the year | (4,975,973) | (8,810,167) | (4,923,164) |

## 9. PROFIT FOR THE YEAR

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Profit has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 40,633,863 | 23,012,983 | 21,372,408 |
| Depreciation and amortisation of property, plant and equipment | 3,304,031 | 4,765,059 | 6,084,347 |
| Provision for restoration cost *(note 20)* | 105,495 | 81,667 | 137,317 |
| Loss on disposal of property, plant and equipment | 58,972 | — | — |
| Salaries and other benefits | 14,867,349 | 8,198,238 | 9,466,579 |
| Retirement benefit costs | 949,849 | 204,030 | 784,917 |
| Total staff costs | 15,817,198 | 8,402,268 | 10,251,496 |
| Bank interest income | (7,611) | (3,580) | (6,967) |
| Imputed interest income on amounts due from fellow subsidiaries | — | — | (2,579,567) |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

During the Relevant Periods, no fees or other emoluments was paid or payable by Fuyuan Xiangda to its directors.

During the Relevant Periods, no remuneration was paid by Fuyuan Xiangda to its directors as an inducement to join or upon joining Fuyuan Xiangda or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

### Employees' emoluments

The five highest paid individuals for the Relevant Periods were as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Salaries and other allowances | 387,784 | 513,462 | 303,887 |
| Contributions to retirement benefit schemes | 1,731 | 574 | 761 |
| | 389,515 | 514,036 | 304,648 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Fuyuan Xiangda to the five highest paid individuals as an inducement to join Fuyuan Xiangda as compensation for loss of office.

## 11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | | |
| At 1 January 2010 | 6,011,764 | 10,241,570 | 39,820,076 | — | 3,366,237 | 28,063,972 | 87,503,619 |
| Additions | 184,959 | — | 4,744,084 | 839,042 | 108,751 | 59,844,379 | 65,721,215 |
| Transfer | 355,471 | 20,063,972 | — | — | — | (20,419,443) | — |
| Disposal | — | — | — | — | (75,285) | — | (75,285) |
| At 31 December 2010 | 6,552,194 | 30,305,542 | 44,564,160 | 839,042 | 3,399,703 | 67,488,908 | 153,149,549 |
| Additions | — | 25,640,000 | 28,139,061 | — | 647,439 | 100,235,221 | 154,661,721 |
| Transfer | 876,002 | — | 4,344,607 | — | — | (5,220,609) | — |
| At 31 December 2011 | 7,428,196 | 55,945,542 | 77,047,828 | 839,042 | 4,047,142 | 162,503,520 | 307,811,270 |
| Additions | — | 209,194 | 3,491,298 | — | 47,873 | 13,489,230 | 17,237,595 |
| Transfer | 7,283,750 | 47,172,651 | 286,863 | — | — | (54,743,264) | — |
| At 31 December 2012 | 14,711,946 | 103,327,387 | 80,825,989 | 839,042 | 4,095,015 | 121,249,486 | 325,048,865 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 January 2010 | 133,062 | — | 1,623,314 | — | 288,160 | — | 2,044,536 |
| Provided for the year | 174,230 | 245,040 | 2,680,175 | 100,544 | 104,042 | — | 3,304,031 |
| Eliminated on disposals | — | — | — | — | (16,313) | — | (16,313) |
| At 31 December 2010 | 307,292 | 245,040 | 4,303,489 | 100,544 | 375,889 | — | 5,332,254 |
| Provided for the year | 199,673 | 188,298 | 3,959,160 | 135,645 | 282,283 | — | 4,765,059 |
| At 31 December 2011 | 506,965 | 433,338 | 8,262,649 | 236,189 | 658,172 | — | 10,097,313 |
| Provided for the year | 389,923 | 219,411 | 5,016,128 | 135,645 | 323,240 | — | 6,084,347 |
| At 31 December 2012 | 896,888 | 652,749 | 13,278,777 | 371,834 | 981,412 | — | 16,181,660 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 6,244,902 | 30,060,502 | 40,260,671 | 738,498 | 3,023,814 | 67,488,908 | 147,817,295 |
| At 31 December 2011 | 6,921,231 | 55,512,204 | 68,785,179 | 602,853 | 3,388,970 | 162,503,520 | 297,713,957 |
| At 31 December 2012 | 13,815,058 | 102,674,638 | 67,547,212 | 467,208 | 3,113,603 | 121,249,486 | 308,867,205 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 10 years but in the opinion of the directors of Fuyuan Xiangda, Fuyuan Xiangda will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

The legal titles of the mining rights have been granted by the relevant government authorities as at 31 December 2010, 31 December 2011 and 31 December 2012.

During the year ended 31 December 2012, the operation in mines of Fuyuan Xiangda have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB121,249,486 and RMB187,617,719, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government liberations, management of Fuyuan Xiangda considers that Fuyuan Xiangda will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Fuyuan Xiangda for the next five years, taking into account the best estimates of management of Fuyuan Xiangda concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Fuyuan Xiangda. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Fuyuan Xiangda has determined that there is no impairment of the mining structure and mining rights.

## 13. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Coal products | 752,038 | 2,448,516 | 10,678,231 |
| Auxiliary materials and spare parts | 5,345,574 | 1,957,562 | 541,063 |
| | 6,097,612 | 4,406,078 | 11,219,294 |

## 14. BILLS AND TRADE RECEIVABLES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Trade receivables | — | — | 33,946,391 |
| Bills receivables | 620,000 | 2,600,000 | — |
| | 620,000 | 2,600,000 | 33,946,391 |

Fuyuan Xiangda generally allows an average credit period ranging from 90–120 days to its trade customers and the average credit period for bills receivables is ranging from 90–180 days.

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

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Aged: | | | |
| 0–90 days | 620,000 | 2,600,000 | 33,946,391 |

Bills and trade receivables as at the Relevant Periods were aged less than 30 days based on the invoice date.

Before accepting any new customer, Fuyuan Xiangda will assess credit worthiness by customer. As the customers are mostly the renowned steel manufacturer, therefore based on the past history, the eventual collectability of the receivables neither past due nor impaired is expected.

### 15. OTHER RECEIVABLES AND PREPAYMENTS

At 31 December 2012, included in other receivables, deposits and prepayments is an amount of RMB540,000 prepayment for advisory service to Huaneng, a shareholder of Fuyuan Xiangda.

### 16. BANK BALANCES AND CASH

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carry interests at market rates range from 0.35% to 0.50% per annum.

### 17. TRADE PAYABLES

The aged analysis of Fuyuan Xiangda trade payables and based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 386,987 | 2,348,843 | 2,872,206 |
| 91–180 days | — | 785,600 | 1,693,475 |
| 181–365 days | 6,760 | — | 1,240,162 |
| Over 365 days | — | 214,500 | 1,000,840 |
| | 393,747 | 3,348,943 | 6,806,683 |

The average credit period on purchases of goods is 90 days.

### 18. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2011, included in other payables and accrued expenses was an amount of RMB8,265,297 payables for acquisition of property, plant and equipment. The amount was paid during the year ended 31 December 2012. In addition, included in other payables and accruals is an amount of RMB17,500,000 payables for acquisitions of mining structures and mining rights and would be settled in six installments from 2012 to 2016 and borne interest at market rate.

At 31 December 2012, included in other payables and accruals is an amount of RMB14,000,000 payables for acquisitions of mining structures and mining rights and would be settled in five installments from 2013 to 2016 and borne interest at market rate.

The payables for acquisitions of mining structures and mining rights are analysed as below for presentation:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Current liabilities | — | 3,500,000 | 3,500,000 |
| Non current liabilities | — | 14,000,000 | 10,500,000 |
| | — | 17,500,000 | 14,000,000 |

## 19. AMOUNTS DUE FROM AND TO RELATED PARTIES

At 31 December 2010, except for amount due to an intermediate holding company of RMB123,926,758 which borne interest at 5.76% per annum, amounts due from and to related parties were interest free. All amounts due from and to related parties were unsecured and repayable on demand.

At 31 December 2011, except for amounts due to fellow subsidiaries of RMB102,896,022 which borne interest at 6.15% per annum and repayable within three years and amount due to an intermediate holding company of RMB97,725,000 which borne interest at 8.625% and repayable on demand, amounts due to related parties were interest free. All amounts due from and to related parties were unsecured and repayable on demand.

At 31 December 2012, except for amounts due from a shareholder and fellow subsidiaries of RMB48,166,688 and RMB78,796,827, respectively, which will be recovered in three year time from initial recognition, amounts due from related parties are expected to be recovered in one year. The effective interest of amounts due from a shareholder and fellow subsidiaries expected to be recovered in three year time was 6.15% per annum. All amounts due from related parties are interest free and unsecured.

At 31 December 2012, except for amounts due to fellow subsidiaries of RMB109,405,584 which borne interest at 6.15% per annum and repayable within two years and amount due to an intermediate holding company of RMB106,143,000 which borne interest at 8.625% and repayable on demand, amounts due to related parties were interest free. All amounts due to related parties were unsecured and repayable on demand.

There is no credit terms and policies on the trade balances with group companies.

## 20. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | *RMB* |
|---|---|
| At 1 January 2010 | — |
| Provision for the year | 105,495 |
| At 31 December 2010 | 105,495 |
| Provision for the year | 81,667 |
| At 31 December 2011 | 187,162 |
| Provision for the year | 137,317 |
| At 31 December 2012 | 324,479 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Fuyuan Xiangda is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 21. PAID IN CAPITAL

| | RMB |
|---|---|
| Registered and fully paid at 1 January 2010, 31 December 2010 and 2011 | 12,000,000 |
| Capital injection | 8,339,000 |
| Registered and fully paid at 31 December 2012 | 20,339,000 |

On 28 August 2012, the total registered capital of Fuyuan Xiangda increased from RMB12,000,000 to RMB20,339,000 and Huaneng paid an additional contribution of RMB60,000,000 in September 2012, of which RMB8,339,000 as paid in capital and RMB51,661,000 as capital reserve.

## 22. CAPITAL RISK MANAGEMENT

Fuyuan Xiangda manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fuyuan Xiangda remains unchanged throughout the Relevant Periods.

The capital structure of Fuyuan Xiangda consists of debts, which include amounts due to related parties as disclosed in note 19, net of cash and cash equivalents and equity attributable to owners of Fuyuan Xiangda, comprising paid in capital, reserves and retained profits.

The directors of Fuyuan Xiangda review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Fuyuan Xiangda will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

## 23. CAPITAL COMMITMENTS

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | RMB | RMB | RMB |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | 75,736,678 | 35,648,330 | 52,095,495 |

**24. RELATED PARTY TRANSACTIONS**

During the Relevant Periods, Fuyuan Xiangda entered into the following transactions with related parties:

**(a) Transactions**

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| A shareholder: | | | |
| Purchases | 37,463,460 | 22,389,379 | — |
| Sales | — | 26,256,805 | 2,536,836 |
| Advisory fee paid and payable | — | — | 270,000 |
| Intermediate holding companies: | | | |
| Interest expenses | 5,956,758 | 1,725,000 | 8,418,000 |
| Fellow subsidiaries: | | | |
| Purchases | 296,906 | 498,586 | 3,463,780 |
| Sales | 53,327,832 | 20,001,926 | 31,151,568 |
| Interest expenses | — | 3,253,340 | 6,509,562 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 15 and 19.

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Fuyuan Xiangda's mine was resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Fuyuan Xiangda have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

Deloitte.
德勤

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35/F One Pacific Place
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25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Yunnan Henglong Coal Industry Co., Ltd. ("**Yunnan Henglong**") for the period from 3 February 2010 (date of establishment) to 31 December 2010 and each of the two years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Yunnan Henglong and certain subsidiaries of the Company and share transfers.

Yunnan Henglong was established with limited liability in the People's Republic of China (the "**PRC**") on 3 February 2010.

The statutory financial statements of Yunnan Henglong were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Yunnan Henglong for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Yunnan Henglong have prepared the financial statements of Yunnan Henglong for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Yunnan Henglong for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Yunnan Henglong who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Yunnan Henglong as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information which indicates that Yunnan Henglong's current liabilities exceeded its current assets by RMB260,761,810 as at 31 December 2012. As described in note 1 to the Financial Information, the Company has agreed to provide financial support to Yunnan Henglong to meet in full its financial obligations as and when they fall due in the foreseeable future. However, the Company's going concern is dependent on the successful implementation of a number of measures as disclosed in note 1 to the Financial Information to improve its financial position. The eventual success of these measures cannot presently be determined and accordingly this indicates the existence of a material uncertainty which may cast significant doubt about Yunnan Henglong's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from a failure of the Company to implement such measures as disclosed in note 1 to the Financial Information.

## A. FINANCIAL INFORMATION

### Statements of Comprehensive Income

| | Notes | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|---|
| | | *RMB* | *RMB* | *RMB* |
| Revenue | *6* | 47,781,977 | 35,326,496 | 34,255,843 |
| Cost of sales | | (18,262,189) | (13,514,277) | (18,265,460) |
| Gross profit | | 29,519,788 | 21,812,219 | 15,990,383 |
| Other income | | 128,147 | 4,528,768 | 8,607,941 |
| Administrative expenses | | (1,600,772) | (3,092,079) | (8,460,652) |
| Finance costs | *7* | (9,202,453) | (18,433,614) | (29,430,627) |
| Profit (loss) before tax | | 18,844,710 | 4,815,294 | (13,292,955) |
| Income tax expense | *8* | (6,875,393) | (5,186,894) | (2,356,857) |
| Profit (loss) and total comprehensive income (expense) for the period/year | *9* | 11,969,317 | (371,600) | (15,649,812) |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 434,256,969 | 538,300,059 | 598,936,675 |
| Loan receivable | *13* | 22,623,118 | — | — |
| Amounts due from fellow subsidiaries | *19* | 43,557,544 | 75,302,402 | 142,453,214 |
| | | 500,437,631 | 613,602,461 | 741,389,889 |
| CURRENT ASSETS | | | | |
| Inventories | *14* | 4,987,415 | 2,005,265 | 2,192,887 |
| Other receivables, deposits and prepayments | *15* | 4,564,715 | 33,119,554 | 6,422,381 |
| Amount due from a shareholder | *19* | — | — | 16,000 |
| Amounts due from fellow subsidiaries | *19* | 1,502,400 | 12,441,259 | 45,955,198 |
| Bank balances and cash | *16* | 319,910 | 44,757 | 10,401,360 |
| | | 11,374,440 | 47,610,835 | 64,987,826 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *17* | 39,369 | 1,577,683 | 5,271,044 |
| Other payables and accrued expenses | *18* | 9,585,169 | 10,048,719 | 34,419,713 |
| Amounts due to shareholders | *19* | 37,843,576 | 250,912,627 | 266,431,376 |
| Amounts due to intermediate holding companies | *19* | 10,254,400 | 5,676,800 | 5,676,800 |
| Amounts due to fellow subsidiaries | *19* | 174,075,374 | 100,439,102 | 1,986,257 |
| Tax payables | | 6,862,145 | 12,001,443 | 11,964,446 |
| | | 238,660,033 | 380,656,374 | 325,749,636 |
| NET CURRENT LIABILITIES | | (227,285,593) | (333,045,539) | (260,761,810) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 273,152,038 | 280,556,922 | 480,628,079 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *21* | 108,984 | 125,290 | 145,366 |
| Amounts due to fellow subsidiaries | *19* | 206,250,013 | 219,844,182 | 337,525,507 |
| | | 206,358,997 | 219,969,472 | 337,670,873 |
| NET ASSETS | | 66,793,041 | 60,587,450 | 142,957,206 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *20* | 10,000,000 | 10,000,000 | 16,949,200 |
| Reserves | | 56,793,041 | 50,587,450 | 126,008,006 |
| TOTAL EQUITY | | 66,793,041 | 60,587,450 | 142,957,206 |

## Statements of Changes in Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note i)* | Future development fund *RMB* *(Note ii)* | Retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 3 February 2010 (date of establishment) | 10,000,000 | — | — | — | — | 10,000,000 |
| Profit and total comprehensive income for the period | — | — | — | — | 11,969,317 | 11,969,317 |
| Deemed contribution on interest free loans granted from fellow subsidiaries | — | — | — | — | 57,493,494 | 57,493,494 |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (12,669,770) | (12,669,770) |
| At 31 December 2010 | 10,000,000 | — | — | — | 56,793,041 | 66,793,041 |
| Loss and total comprehensive expense for the year | — | — | — | — | (371,600) | (371,600) |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (5,833,991) | (5,833,991) |
| Transfer | — | — | 751,592 | 373,153 | (1,124,745) | — |
| At 31 December 2011 | 10,000,000 | — | 751,592 | 373,153 | 49,462,705 | 60,587,450 |
| Loss and total comprehensive expense for the year | — | — | — | — | (15,649,812) | (15,649,812) |
| Deemed contribution on interest free loans granted from fellow subsidiaries | — | — | — | — | 20,220,033 | 20,220,033 |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (12,200,465) | (12,200,465) |
| Transfer | — | — | 10,384,739 | 15,366 | (10,400,105) | — |
| Capital injection | 6,949,200 | 83,050,800 | — | — | — | 90,000,000 |
| At 31 December 2012 | 16,949,200 | 83,050,800 | 11,136,331 | 388,519 | 31,432,356 | 142,957,206 |

*Notes:*

(i) According to the Articles of Association of Yunnan Henglong, Yunnan Henglong is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Yunnan Henglong while Yunnan Henglong can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Yunnan Henglong.

(ii) Pursuant to the relevant regulations in the PRC, the Yunnan Henglong is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit (loss) before tax | 18,844,710 | 4,815,294 | (13,292,955) |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 1,335,157 | 1,640,189 | 2,334,405 |
| Provision for restoration and environmental costs | 108,984 | 16,306 | 20,076 |
| Interest income | (128,147) | (1,657,840) | (1,840,365) |
| Interest expenses | 9,202,453 | 18,433,614 | 29,430,627 |
| Imputed interest income | — | (2,870,928) | (6,767,576) |
| Operating cash flows before movements in working capital | 29,363,157 | 20,376,635 | 9,884,212 |
| (Increase) decrease in inventories | (4,987,415) | 2,982,150 | (187,622) |
| (Increase) decrease in other receivables, deposits and prepayments | (4,564,715) | (5,931,721) | 4,074,055 |
| Increase in trade payables | 39,369 | 1,538,314 | 3,693,361 |
| Increase (decrease) in other payables and accrued expenses | 7,085,169 | 2,463,550 | (7,629,006) |
| Cash from operations | 26,935,565 | 21,428,928 | 9,835,000 |
| Income tax paid | (13,248) | (47,596) | (2,393,854) |
| NET CASH FROM OPERATING ACTIVITIES | 26,922,317 | 21,381,332 | 7,441,146 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | (433,092,126) | (105,644,652) | (26,714,482) |
| (Advance to) repayment from a loan receivable | (22,623,118) | — | 22,623,118 |
| Advance to fellow subsidiaries | (58,370,109) | (76,800,358) | (128,628,957) |
| Repayment from fellow subsidiaries | 640,395 | 31,153,578 | 22,531,317 |
| Advance to a shareholder | — | — | (16,000) |
| Interest received | 128,147 | 1,657,840 | 1,840,365 |
| NET CASH USED IN INVESTING ACTIVITIES | (513,316,811) | (149,633,592) | (108,364,639) |

| | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | RMB | RMB | RMB |
| FINANCING ACTIVITIES | | | |
| Capital injection | 10,000,000 | — | 90,000,000 |
| Advance from shareholders | 67,843,576 | 231,069,051 | 92,160,014 |
| Advance from an intermediate holding company | 10,254,400 | 5,400,000 | — |
| Advance from fellow subsidiaries | 463,969,316 | 105,684,012 | 146,003,372 |
| Repayment to shareholders | (30,000,000) | (18,000,000) | (76,641,265) |
| Repayment to an intermediate holding company | — | (9,977,600) | — |
| Repayment to fellow subsidiaries | (34,742,936) | (179,320,284) | (124,162,011) |
| Interest paid | (609,952) | (6,878,072) | (16,080,014) |
| NET CASH FROM FINANCING ACTIVITIES | 486,714,404 | 127,977,107 | 111,280,096 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 319,910 | (275,153) | 10,356,603 |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | — | 319,910 | 44,757 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances and cash | 319,910 | 44,757 | 10,401,360 |

## Notes to the Financial Information

### 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The principal activities of Yunnan Henglong is mining and sale of raw coal to its group companies. Yunnan Henglong is owned as to 47.2% by is Liupanshui Hidili Industry Co., Limited ("**Liupanshui Hidili**"); 11.8% by Sichuan Hidili Industry Co., Ltd. ("**Sichuan Hidili**"); and 41% by Huaneng, companies established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Yunnan Henglong, Liupanshui Hidili and Sichuan Hidili. In the opinion of the directors of Yunnan Henglong, the ultimate holding company of Yunnan Henglong is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Yunnan Henglong is Zude Village, Fucun Town, Fuyuan County, Yunnan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Yunnan Henglong.

In preparing the Underlying Financial Statements, the directors of Yunnan Henglong have taken into consideration that Yunnan Henglong's current liabilities exceeded its current assets by RMB260,761,810 as at 31 December 2012.

The Financial Information has been prepared on a going concern basis because the Company has agreed to provide financial support to Yunnan Henglong to meet in full its financial obligations as and when they fall due in the foreseeable future. The Company has been implementing a number of measures to improve its financial positions, including but not limited to: (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities of not less than RMB2.5 billion; (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million; and (3) proposal disposal of 50% equity interest in certain of its subsidiaries for a total consideration of RMB2.4 billion, details of which are set out in the Company's announcement dated 24 May 2013. The directors of Yunnan Henglong believe that the above measures can be successfully implemented and therefore the Company will have sufficient working capital to finance the operations of Yunnan Henglong and Yunnan Henglong can meet its financial obligations as and when they fall due for the foreseeable future.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Yunnan Henglong has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Yunnan Henglong's financial year beginning on 1 January 2012.

Yunnan Henglong has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Yunnan Henglong anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Yunnan Henglong.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Yunnan Henglong has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Yunnan Henglong retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Yunnan Henglong; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Yunnan Henglong and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining right, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Yunnan Henglong's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Yunnan Henglong's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Yunnan Henglong expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Yunnan Henglong is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Yunnan Henglong has a present obligation as a result of a past event, it is probable that Yunnan Henglong will be required to settle the obligation. Provisions are measured at the directors of Yunnan Henglong's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Yunnan Henglong becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Yunnan Henglong's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits, loan receivable, amount due from a shareholder, amounts due from fellow subsidiaries and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Yunnan Henglong derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Yunnan Henglong are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Yunnan Henglong after deducting all of its liabilities. Equity instruments issued by Yunnan Henglong are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amounts due to intermediate holding companies, amounts due to shareholders and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Yunnan Henglong derecognises financial liabilities when, and only when, Yunnan Henglong's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Yunnan Henglong reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Yunnan Henglong estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Yunnan Henglong's accounting policies, which are described in note 3, the directors of Yunnan Henglong are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value.

Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Yunnan Henglong assess annually the residual value and the useful life of the property, plant and equipment as well as the reserve of coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB434,256,969, RMB538,300,059 and RMB598,936,675 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Yunnan Henglong's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB404,667,227, RMB404,901,106 and RMB522,010,359 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Yunnan Henglong consider that Yunnan Henglong continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Yunnan Henglong to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB404,667,227, RMB404,901,106 and RMB522,010,359, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 72,274,019 | 117,272,261 | 200,236,666 |
| **Financial liabilities** | | | |
| Amortised cost | 430,998,779 | 579,083,685 | 650,150,198 |

### (b) Financial risk management objectives and policies

Yunnan Henglong's major financial instruments include loan receivable, other receivables and deposits, bank balances, trade payables, other payables, amounts due from and to group companies. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Yunnan Henglong manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *(i) Market risk*

*Interest rate risk*

Yunnan Henglong is exposed to cash flow interest rate risk in relation to variable rate bank balances and fair value interest rate risk in relation to loan receivable and certain balances of amount due to a shareholder which carry fixed interest rate (see notes 16, 15 and 19 for details). The directors of Yunnan Henglong consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Yunnan Henglong currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Yunnan Henglong consider the amount is insignificant.

#### *(ii) Credit risk*

As at the end of each reporting period, Yunnan Henglong's maximum exposure to credit risk which will cause a financial loss to Yunnan Henglong due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statements of financial position.

Management of Yunnan Henglong reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Yunnan Henglong considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Yunnan Henglong reviews the financial position and repayment abilities of respective group companies, Yunnan Henglong does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

*(iii) Liquidity risk*

In the management of the liquidity risk, Yunnan Henglong monitors and maintains a level of cash and cash equivalents deemed adequate by management of Yunnan Henglong to finance its operations and mitigate the effects of fluctuations in cash flows.

Yunnan Henglong relies on advances from related parties as a significant source of liquidity. Details of which are set out in note 19.

At 31 December 2012, Yunnan Henglong had net current liabilities of RMB260,761,810. As the Company has agreed to provide financial support to Yunnan Henglong to meet in full its financial obligations as they fall due in the foreseeable future, the directors of Yunnan Henglong consider the liquidity risk of Yunnan Henglong is insignificant.

The following tables detail Yunnan Henglong's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Yunnan Henglong can be required to pay.

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2010 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 39,369 | — | — | 39,369 | 39,369 |
| Other payables | — | 2,536,047 | — | — | 2,536,047 | 2,536,047 |
| Amount due to shareholders | 3.89 | 37,843,576 | — | — | 37,843,576 | 37,843,576 |
| Amounts due to fellow subsidiaries | 3.66 | 174,075,374 | — | 255,151,006 | 429,226,380 | 380,325,387 |
| Amount due to intermediate holding companies | — | 10,254,400 | — | — | 10,254,400 | 10,254,400 |
| | | 224,748,766 | — | 255,151,006 | 479,899,772 | 430,998,779 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2011 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 1,577,683 | — | — | 1,577,683 | 1,577,683 |
| Other payables | — | 633,291 | — | — | 633,291 | 633,291 |
| Amount due to shareholders | 4.81 | 250,912,627 | — | — | 250,912,627 | 250,912,627 |
| Amount due to intermediate holding companies | — | 5,676,800 | — | — | 5,676,800 | 5,676,800 |
| Amounts due to fellow subsidiaries | 4.41 | 100,439,102 | — | 255,151,006 | 355,590,108 | 320,283,284 |
| | | 359,239,503 | — | 255,151,006 | 614,390,509 | 579,083,685 |

| | Weighted average interest rate<br>% | On demand or within 1 year<br>*RMB* | More than 1 year and less than 2 years<br>*RMB* | More than 2 years and less than 5 years<br>*RMB* | Total undiscounted cash flows<br>*RMB* | Carrying amount at 31 December 2012<br>*RMB* |
|---|---|---|---|---|---|---|
| Trade payables | — | 5,271,044 | — | — | 5,271,044 | 5,271,044 |
| Other payables | — | 33,259,214 | — | — | 33,259,214 | 33,259,214 |
| Amount due to shareholders | 6.34 | 266,431,376 | — | — | 266,431,376 | 266,431,376 |
| Amount due to intermediate holding companies | — | 5,676,800 | — | — | 5,676,800 | 5,676,800 |
| Amounts due to fellow subsidiaries | 6.12 | 1,986,257 | 255,151,006 | 120,294,207 | 377,431,470 | 339,511,764 |
| | | 312,624,691 | 255,151,006 | 120,294,207 | 688,069,904 | 650,150,198 |

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Yunnan Henglong considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Yunnan Henglong, being the chief operating decision makers, assess the performance and allocate the resources of Yunnan Henglong as a whole because Yunnan Henglong is mainly engaged in mining. Therefore, the directors of Yunnan Henglong consider that Yunnan Henglong only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Yunnan Henglong are located in the PRC.

**Information about major customers**

Revenue from sales of raw coals are substantially contributed from fellow subsidiaries of Yunnan Henglong. Details of related party transactions are disclosed in note 24(a).

## 7. FINANCE COSTS

| | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Interest expenses on borrowings wholly repayable within five years: | | | |
| — amount due to a shareholder | 609,952 | 6,878,072 | 16,080,014 |
| Deemed interest expense on amounts due to fellow subsidiaries | 8,592,501 | 13,594,169 | 17,607,152 |
| | 9,202,453 | 20,472,241 | 33,687,166 |
| Less: Interest capitalised in construction in progress | — | (2,038,627) | (4,256,539) |
| | 9,202,453 | 18,433,614 | 29,430,627 |

## 8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as Yunnan Henglong's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory tax rate of Yunnan Henglong is 25% during the Relevant Periods.

The income tax expenses for the period/year can be reconciled to the profit (loss) before taxation as follows:

| | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Profit (loss) before tax | 18,844,710 | 4,815,294 | (13,292,955) |
| Tax at applicable tax rate of 25% | 4,711,178 | 1,203,824 | (3,323,238) |
| Tax effect of expenses not deductible for tax purpose | 2,164,215 | 3,496,541 | 4,416,116 |
| Tax effect of income not taxable | — | (717,732) | (1,691,894) |
| Others | — | 1,204,261 | 2,955,873 |
| Income tax expenses for the period/year | 6,875,393 | 5,186,894 | 2,356,857 |

## 9. PROFIT (LOSS) FOR THE PERIOD/YEAR

| | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Profit (loss) for the period/year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 18,262,189 | 13,514,277 | 18,265,460 |
| Depreciation and amortisation of property, plant and equipment *(note 12)* | 1,335,157 | 1,640,189 | 2,334,405 |
| Provision for restoration costs *(note 21)* | 108,984 | 16,306 | 20,076 |
| Salaries and other benefits | 9,932,497 | 5,345,321 | 9,822,734 |
| Bank interest income | (5,029) | (5,371) | (13,503) |
| Interest income from loan receivable | (123,118) | (1,652,469) | (1,826,862) |
| Imputed interest income on amounts due from fellow subsidiaries | — | (2,870,928) | (6,767,576) |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

During the Relevant Periods, no fees or other emoluments was paid or payable by Yunnan Henglong to its directors.

During the Relevant Periods, no remuneration was paid by Yunnan Henglong to its directors as an inducement to join or upon joining Yunnan Henglong or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

### Employees' emoluments

The five highest paid individuals for the Relevant Periods were as follows:

| | For the period from 3 February 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Salaries and other allowances | 596,910 | 663,078 | 694,596 |
| Contributions to retirement benefit schemes | 6,831 | 4,340 | 4,034 |
| | 603,741 | 667,418 | 698,630 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Yunnan Henglong to the five highest paid individuals as an inducement to join Yunnan Henglong as compensation for loss of office.

## 11. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| At 3 February 2010 (date of establishment) | — | — | — | — | — | — | — |
| Additions | 1,615,708 | 405,552,915 | 7,811,963 | 947,186 | 202,872 | 19,461,482 | 435,592,126 |
| At 31 December 2010 | 1,615,708 | 405,552,915 | 7,811,963 | 947,186 | 202,872 | 19,461,482 | 435,592,126 |
| Additions | — | 960,000 | 4,776,983 | — | 146,501 | 99,799,795 | 105,683,279 |
| At 31 December 2011 | 1,615,708 | 406,512,915 | 12,588,946 | 947,186 | 349,373 | 119,261,277 | 541,275,405 |
| Additions | — | 40,000,000 | 4,557,728 | — | 17,899 | 18,395,394 | 62,971,021 |
| Transfer | 2,545,195 | 78,088,595 | 1,852,507 | — | 16,932 | (82,503,229) | — |
| At 31 December 2012 | 4,160,903 | 524,601,510 | 18,999,181 | 947,186 | 384,204 | 55,153,442 | 604,246,426 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 3 February 2010 (date of establishment) | — | — | — | — | — | — | — |
| Provided for the period | 49,595 | 885,688 | 277,472 | 98,547 | 23,855 | — | 1,335,157 |
| At 31 December 2010 | 49,595 | 885,688 | 277,472 | 98,547 | 23,855 | — | 1,335,157 |
| Provided for the year | 66,090 | 726,121 | 666,551 | 149,988 | 31,439 | — | 1,640,189 |
| At 31 December 2011 | 115,685 | 1,611,809 | 944,023 | 248,535 | 55,294 | — | 2,975,346 |
| Provided for the year | 106,541 | 979,342 | 1,058,234 | 150,480 | 39,808 | — | 2,334,405 |
| At 31 December 2012 | 222,226 | 2,591,151 | 2,002,257 | 399,015 | 95,102 | — | 5,309,751 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 1,566,113 | 404,667,227 | 7,534,491 | 848,639 | 179,017 | 19,461,482 | 434,256,969 |
| At 31 December 2011 | 1,500,023 | 404,901,106 | 11,644,923 | 698,651 | 294,079 | 119,261,277 | 538,300,059 |
| At 31 December 2012 | 3,938,677 | 522,010,359 | 16,996,924 | 548,171 | 289,102 | 55,153,442 | 598,936,675 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 8 years but in the opinion of the directors of Yunnan Henglong, Yunnan Henglong will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method based on the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

The legal titles of the mining rights have been granted by the relevant government authorities as at 31 December 2010, 31 December 2011 and 31 December 2012.

During the year ended 31 December 2012, the operation in mines of Yunnan Henglong have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB55,153,442 and RMB543,783,233, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Yunnan Henglong considers that Yunnan Henglong will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Yunnan Henglong for the next five years, taking into account the best estimates of management of Yunnan Henglong concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Yunnan Henglong. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Yunnan Henglong has determined that there is no impairment of the mining structure and mining rights.

## 13. LOAN RECEIVABLE

The amount represented a loan advanced to an entity which was registered and operating in the PRC. The loan would be repayable in 2012 with an annual interest rate of 8% per annum. The amount was classified in other receivables under current assets as at 31 December 2011 and was fully paid during the year 2012.

The directors of Yunnan Henglong are of the opinion that the above entity was independent of and not related to Yunnan Henglong.

## 14. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Coal products | — | — | 1,721,282 |
| Auxiliary materials and spare parts | 4,987,415 | 2,005,265 | 471,605 |
| | 4,987,415 | 2,005,265 | 2,192,887 |

## 15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2012, included in other receivables, deposits and prepayments is an amount of RMB2,070,000 prepayment for advisory service to Huaneng, a shareholder of Yunnan Henglong.

## 16. BANK BALANCES AND CASH

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carry interests range from 0.35% to 0.50% per annum.

## 17. TRADE PAYABLES

The aged analysis of the Yunnan Henglong's trade payables based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 39,369 | 1,577,483 | 1,490,784 |
| 91–180 days | — | 200 | 3,494,814 |
| 181–365 days | — | — | 285,246 |
| Over 365 days | — | — | 200 |
| | 39,369 | 1,577,683 | 5,271,044 |

The average credit period on purchases of goods is 90 days.

## 18. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2010, 31 December 2011 and 31 December 2012, included in other payables and accrued expenses is payable for acquisition of property, plant and equipment of RMB2,500,000, RMB500,000 and RMB32,500,000; and other tax payables of RMB5,026,795, RMB8,236,561 and RMB245,934, respectively.

## 19. AMOUNTS DUE FROM AND TO RELATED PARTIES

At 31 December 2010, 31 December 2011 and 31 December 2012, except for amounts due from fellow subsidiaries of RMB43,557,544, RMB75,302,402 and RMB142,453,214, respectively, which will be recovered in three to four year time from initial recognition, amounts due from related parties are expected to be recovered in one year. The effective interest of amounts due from fellow subsidiaries expected to be recovered in three to four year time is 6.15% per annum. All amounts due from group companies are interest free and unsecured.

Except for amounts due to fellow subsidiaries at 31 December 2010, 31 December 2011 and 31 December 2012 of RMB206,250,013, RMB219,844,182 and RMB337,525,507, respectively, which will be settled in three to four year time from initial recognition, other amounts due to related parties will be settled in one year. In addition, except for due to a shareholder of RMB23,361,080, RMB191,618,710 and RMB266,431,376, at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, which borne interest at 6.3% per annum, all amounts due to related parties are interest free. The effective interest of amounts due to fellow subsidiaries expected to be settled in three to four year time is 6.15% per annum. All amounts due to related parties are unsecured.

There is no credit terms and policies on the trading balances with group companies.

## 20. PAID IN CAPITAL

| | |
|---|---|
| | *RMB* |
| Registered and fully paid at 3 February 2010 (date of establishment), 31 December 2010 and 2011 | 10,000,000 |
| Capital injection | 6,949,200 |
| Registered and fully paid at 31 December 2012 | 16,949,200 |

Yunnan Henglong was established with registered capital of RMB10,000,000 on 3 February 2010. The registered capital was fully paid at the date of establishment. On 28 August 2012, the total registered capital of Yunnan Henglong increased from RMB10,000,000 to RMB16,949,200 and Huaneng paid an additional contribution of RMB90,000,000 in September 2012, of which RMB6,949,200 as paid in capital and RMB83,050,800 as capital reserve.

### 21. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | *RMB* |
|---|---|
| At 3 February 2010 (date of establishment) | — |
| Provision for the period | 108,984 |
| At 31 December 2010 | 108,984 |
| Provision for the year | 16,306 |
| At 31 December 2011 | 125,290 |
| Provision for the year | 20,076 |
| At 31 December 2012 | 145,366 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Yunnan Henglong is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

### 22. CAPITAL RISK MANAGEMENT

Yunnan Henglong manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Yunnan Henglong remains unchanged throughout the Relevant Period.

The capital structure of Yunnan Henglong consists of debts, which include amounts due to group companies as disclosed in note 19, net of cash and cash equivalents and equity attributable to owners of Yunnan Henglong, comprising paid in capital, reserves and retained profits.

The directors of Yunnan Henglong review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Yunnan Henglong will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

### 23. CAPITAL COMMITMENTS

| | **As at 31 December** | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | 8,303,764 | 5,085,916 | 4,712,844 |

**24. RELATED PARTY TRANSACTIONS**

**(a) Transactions**

During the Relevant Periods, Yunnan Henglong entered into the following transactions with related parties:

| | For the period from 3 February 2010 to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Fellow subsidiaries: | | | |
| Sales | 47,781,977 | 34,858,361 | 34,255,843 |
| A shareholder: | | | |
| Interest expenses | 609,952 | 6,878,072 | 16,080,014 |
| Advisory fee paid and payable | — | — | 270,000 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 15 and 19.

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Yunnan Henglong's mine was resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Yunnan Henglong have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

Deloitte.
德勤

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Hong Kong

25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Fuyuan County Dahe Qingping Coal Industry Co., Ltd. ("**Fuyuan Dahe**") for each of the three years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Fuyuan Dahe and certain other subsidiaries of the Company and share transfers.

Fuyuan Dahe was established with limited liability in the People's Republic of China (the "**PRC**") on 29 April 2009.

The statutory financial statements of Fuyuan Dahe were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Fuyuan Dahe for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Fuyuan Dahe have prepared the financial statements of Fuyuan Dahe for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Fuyuan Dahe for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Fuyuan Dahe who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Fuyuan Dahe as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information which indicates that Fuyuan Dahe's current liabilities exceeded its current assets by RMB111,540,195 as at 31 December 2012. As described in note 1 to the Financial Information, the Company has agreed to provide financial support to Fuyuan Dahe to meet in full its financial obligations as and when they fall due in the foreseeable future. However, the Company's going concern is dependent on the successful implementation of a number of measures as disclosed in note 1 to the Financial Information to improve its financial position. The eventual success of these measures cannot presently be determined and accordingly this indicates the existence of a material uncertainty which may cast significant doubt about Fuyuan Dahe's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from a failure of the Company to implement such measures as disclosed in note 1 to the Financial Information.

## A. FINANCIAL INFORMATION

**Statements of Comprehensive Income**

| | | For the year ended 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| Revenue | 6 | 75,729,382 | 150,054,547 | 96,619,008 |
| Cost of sales | | (20,653,498) | (36,268,972) | (36,970,582) |
| Gross profit | | 55,075,884 | 113,785,575 | 59,648,426 |
| Other income | | 370,197 | 2,870,890 | 8,231,211 |
| Administrative expenses | | (6,780,758) | (9,845,825) | (10,278,173) |
| Finance costs | 7 | (3,591,684) | — | (215,999) |
| Profit before tax | | 45,073,639 | 106,810,640 | 57,385,465 |
| Income tax expense | 8 | (11,500,243) | (26,115,309) | (12,536,073) |
| Profit and total comprehensive income for the year | 9 | 33,573,396 | 80,695,331 | 44,849,392 |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 440,936,108 | 564,901,924 | 621,228,465 |
| Amounts due from fellow subsidiaries | *19* | 41,506,118 | 77,701,535 | 180,764,908 |
| | | 482,442,226 | 642,603,459 | 801,993,373 |
| CURRENT ASSETS | | | | |
| Inventories | *13* | 3,172,590 | 4,296,391 | 794,289 |
| Other receivables, deposits and prepayments | *14* | 6,238,819 | 10,718,357 | 14,210,375 |
| Amounts due from fellow subsidiaries | *19* | 143,957 | 1,587,311 | 33,067,828 |
| Bank balances and cash | *15* | 171,885 | 1,303,709 | 56,747 |
| | | 9,727,251 | 17,905,768 | 48,129,239 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *16* | 692,567 | 2,706,344 | 5,434,115 |
| Other payables and accrued expenses | *17* | 11,285,704 | 14,787,950 | 5,399,844 |
| Amounts due to intermediate holding companies | *19* | 73,245,420 | 14,502,502 | 119,655,743 |
| Amounts due to fellow subsidiaries | *19* | 73,309,468 | 209,994,480 | 2,506,647 |
| Tax payables | | 13,025,533 | 23,808,370 | 26,673,085 |
| | | 171,558,692 | 265,799,646 | 159,669,434 |
| NET CURRENT LIABILITIES | | (161,831,441) | (247,893,878) | (111,540,195) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 320,610,785 | 394,709,581 | 690,453,178 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *20* | — | 164,013 | 267,049 |
| NET ASSETS | | 320,610,785 | 394,545,568 | 690,186,129 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *18* | 42,000,000 | 42,000,000 | 67,741,900 |
| Reserves | | 278,610,785 | 352,545,568 | 622,444,229 |
| TOTAL EQUITY | | 320,610,785 | 394,545,568 | 690,186,129 |

## Statements of Changes in Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note (i))* | Future development fund *RMB* *(Note (ii))* | Retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 42,000,000 | 252,800,000 | — | — | 4,246,405 | 299,046,405 |
| Profit and total comprehensive income for the year | — | — | — | — | 33,573,396 | 33,573,396 |
| Deemed distribution on interest free loan granted to fellow subsidiaries | — | — | — | — | (12,009,016) | (12,009,016) |
| Transfer | — | — | 6,611,838 | 893,153 | (7,504,991) | — |
| At 31 December 2010 | 42,000,000 | 252,800,000 | 6,611,838 | 893,153 | 18,305,794 | 320,610,785 |
| Profit and total comprehensive income for the year | — | — | — | — | 80,695,331 | 80,695,331 |
| Deemed distribution on interest free loan granted to fellow subsidiaries | — | — | — | — | (6,760,548) | (6,760,548) |
| Transfer | — | — | 14,721,041 | 381,573 | (15,102,614) | — |
| At 31 December 2011 | 42,000,000 | 252,800,000 | 21,332,879 | 1,274,726 | 77,137,963 | 394,545,568 |
| Profit and total comprehensive income for the year | — | — | — | — | 44,849,392 | 44,849,392 |
| Capital injection | 25,741,900 | 244,258,100 | — | — | — | 270,000,000 |
| Deemed distribution on interest free loan granted to fellow subsidiaries | — | — | — | — | (19,208,831) | (19,208,831) |
| Transfer | — | — | 12,750,475 | 30,000 | (12,780,475) | — |
| At 31 December 2012 | 67,741,900 | 497,058,100 | 34,083,354 | 1,304,726 | 89,998,049 | 690,186,129 |

*Notes:*

(i) According to the Articles of Association of Fuyuan Dahe, Fuyuan Dahe is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Fuyuan Dahe while Fuyuan Dahe can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Fuyuan Dahe.

(ii) Pursuant to the relevant regulations in the PRC, Fuyuan Dahe is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit before tax | 45,073,639 | 106,810,640 | 57,385,465 |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 2,886,824 | 3,566,671 | 4,121,545 |
| Provision on for restoration and environmental costs | — | 164,013 | 103,036 |
| Imputed interest income on amounts due from fellow subsidiaries | (220,192) | (2,735,715) | (7,993,904) |
| Interest income | (2,380) | (4,836) | (68,527) |
| Interest expense | 3,591,684 | — | 215,999 |
| Operating cash flows before movements in working capital | 51,329,575 | 107,800,773 | 53,763,614 |
| (Increase) decrease in inventories | (970,763) | (1,123,801) | 3,502,102 |
| Increase in other receivables, deposits and prepayments | (822,963) | (4,479,538) | (3,492,018) |
| (Decrease) increase in trade payables | (217,968) | 2,013,777 | 2,727,771 |
| Increase (decrease) in other payables and accrued expenses | 3,786,366 | 3,502,246 | (9,388,106) |
| Cash from operations | 53,104,247 | 107,713,457 | 47,113,363 |
| Income tax paid | (2,908,913) | (15,332,472) | (9,671,358) |
| NET CASH FROM OPERATING ACTIVITIES | 50,195,334 | 92,380,985 | 37,442,005 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | (104,812,997) | (127,431,882) | (60,009,736) |
| Advance to fellow subsidiaries | (92,517,285) | (171,258,082) | (379,420,074) |
| Repayment from fellow subsidiaries | 57,032,125 | 129,594,478 | 233,661,257 |
| Interest received | 2,380 | 4,836 | 68,527 |
| NET CASH USED IN INVESTING ACTIVITIES | (140,295,777) | (169,090,650) | (205,700,026) |

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| FINANCING ACTIVITIES | | | |
| Advance from intermediate holding companies | 73,245,420 | 10,099,605 | 193,745,806 |
| Advance from fellow subsidiaries | 157,210,080 | 291,251,703 | 12,311,882 |
| Repayment to intermediate holding companies | — | (68,842,523) | (88,592,565) |
| Repayment to fellow subsidiaries | (136,663,549) | (154,566,691) | (219,799,715) |
| Capital injection | — | — | 270,000,000 |
| Interest paid | (3,591,684) | (100,605) | (654,349) |
| NET CASH FROM FINANCING ACTIVITIES | 90,200,267 | 77,841,489 | 167,011,059 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 99,824 | 1,131,824 | (1,246,962) |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 72,061 | 171,885 | 1,303,709 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances and cash | 171,885 | 1,303,709 | 56,747 |

## Notes to the Financial Information

### 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENT

The principally activities of Fuyuan Dahe is mining and sale of raw coal to its group companies. Its immediate holding company is Shenzhen City Hidili Commercial and Trading Co., Limited, a company established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Fuyuan Dahe. In the opinion of the directors of Fuyuan Dahe, the ultimate holding company of Fuyuan Dahe is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Fuyuan Dahe is Qinglonghe Village, Dahe Town, Fuyuan County, Yunnan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Fuyuan Dahe.

In preparing the Underlying Financial Statements, the directors of Fuyuan Dahe have taken into consideration that Fuyuan Dahe's current liabilities exceeded its current assets by RMB111,540,195 as at 31 December 2012.

The Financial Information has been prepared on a going concern basis because the Company has agreed to provide financial support to Fuyuan Dahe to meet in full its financial obligations as and when they fall due in the foreseeable future. The Company has been implementing a number of measures to improve its financial position, including but not limited to: (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities of not less than RMB2.5 billion; (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million; and (3) proposed disposal of 50% equity interests in certain of its subsidiaries for a total consideration of RMB2.4 billion, details of which are set out in the Company's announcement dated 24 May 2013. The directors of Fuyuan Dahe believe that the above measures can be successfully implemented and therefore the Company will have sufficient working capital to finance the operations of Fuyuan Dahe and Fuyuan Dahe can meet its financial obligations as and when they fall due for the foreseeable future.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Fuyuan Dahe has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Fuyuan Dahe's financial year beginning on 1 January 2012.

Fuyuan Dahe has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Fuyuan Dahe anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Fuyuan Dahe.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Fuyuan Dahe has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Fuyuan Dahe retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Fuyuan Dahe; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Fuyuan Dahe and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Fuyuan Dahe's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Fuyuan Dahe's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Fuyuan Dahe expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Fuyuan Dahe is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Fuyuan Dahe has a present obligation as a result of a past event, it is probable that Fuyuan Dahe will be required to settle the obligation. Provisions are measured at the directors of Fuyuan Dahe's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Fuyuan Dahe becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Fuyuan Dahe's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits, amounts due from fellow subsidiaries and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Fuyuan Dahe derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Fuyuan Dahe are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Fuyuan Dahe after deducting all of its liabilities. Equity instruments issued by Fuyuan Dahe are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amounts due to intermediate holding companies and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Fuyuan Dahe derecognises financial liabilities when, and only when, Fuyuan Dahe's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Fuyuan Dahe reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Fuyuan Dahe estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Fuyuan Dahe's accounting policies, which are described in note 3, the directors of Fuyuan Dahe are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value. Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Fuyuan Dahe assess annually the residual value and the useful life of the property, plant and equipment as well as the reserve of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB440,936,108, RMB564,901,924 and RMB621,228,465 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Fuyuan Dahe's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB313,428,791, RMB341,969,223 and RMB507,120,083 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Fuyuan Dahe consider that Fuyuan Dahe continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Fuyuan Dahe to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB313,428,791, RMB341,969,223 and RMB507,120,083, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 42,379,081 | 85,097,135 | 220,874,178 |
| **Financial liabilities** | | | |
| Amortised cost | 149,129,090 | 229,172,639 | 129,178,188 |

**(b) Financial risk management objectives and policies**

Fuyuan Dahe's major financial instruments include other receivables and deposits, bank balances, trade payables, other payables and amounts due from and to group companies. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Fuyuan Dahe manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***(i) Market risk***

*Interest rate risk*

Fuyuan Dahe is exposed to cash flow interest rate risk in relation to variable rate bank balances and fair value interest rate risk in relation to certain balances of amounts due to an intermediate holding company which carry fixed interest rate (see notes 15 and 19 for details). The directors of Fuyuan Dahe consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Fuyuan Dahe currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Fuyuan Dahe consider the amount is insignificant.

***(ii) Credit risk***

As at the end of each reporting period, Fuyuan Dahe's maximum exposure to credit risk which will cause a financial loss to Fuyuan Dahe due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statement of financial position.

Management of Fuyuan Dahe reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Fuyuan Dahe considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Fuyuan Dahe reviews the financial position and repayment abilities of respective group companies, Fuyuan Dahe does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

***(iii) Liquidity risk***

In the management of the liquidity risk, Fuyuan Dahe monitors and maintains a level of cash and cash equivalents deemed adequate by management of Fuyuan Dahe to finance the its operations and mitigate the effects of fluctuations in cash flows.

Fuyuan Dahe relies on advances from group companies as a significant source of liquidity. Details of which are set out in note 19.

At 31 December 2012, Fuyuan Dahe had net current liabilities of RMB111,540,195. As the Company has agreed to provide financial support to Fuyuan Dahe to meet in full its financial obligations as they fall due in the foreseeable future, the directors of Fuyuan Dahe consider the liquidity risk of Fuyuan Dahe is insignificant.

The financial liabilities carried at amortised cost were required to be settled on demand or less than three months according to respective contractual provision at 31 December 2010, 31 December 2011 and 31 December 2012.

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Fuyuan Dahe considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Fuyuan Dahe, being the chief operating decision makers, assess the performance and allocate the resources of Fuyuan Dahe as a whole because Fuyuan Dahe is mainly engaged in mining. Therefore, the directors of Fuyuan Dahe consider that Fuyuan Dahe only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Fuyuan Dahe are located in the PRC.

**Information about major customers**

Revenue from sales of raw coals are substantially contributed from fellow subsidiaries of Fuyuan Dahe. Details of related party transactions are disclosed in note 22(a).

## 7. FINANCE COSTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Interest expense on borrowings wholly repayable within five years: | | | |
| — amount due to an intermediate holding company | 3,591,684 | 100,605 | 654,349 |
| Less: Interest capitalised in construction in progress | — | (100,605) | (438,350) |
| | 3,591,684 | — | 215,999 |

## 8. INCOME TAX EXPENSE

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Current tax: | | | |
| PRC Enterprise Income Tax | (11,500,243) | (26,311,638) | (12,604,390) |
| Overprovision in prior years | — | 196,329 | 68,317 |
| | (11,500,243) | (26,115,309) | (12,536,073) |

No provision for Hong Kong Profits Tax has been made as Fuyuan Dahe's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of Fuyuan Dahe is 25% during the Relevant Periods.

The income tax expense during the Relevant Periods can be reconciled to the profit before tax per statements of comprehensive income as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Profit before tax | 45,073,639 | 106,810,640 | 57,385,465 |
| Tax at applicable tax rate of 25% | (11,268,410) | (26,702,660) | (14,346,366) |
| Tax effect of expenses not deductible for tax purpose | (286,881) | (292,907) | (256,500) |
| Tax effect of income not taxable for tax purpose | 55,048 | 683,929 | 1,998,476 |
| Overprovision in prior years | — | 196,329 | 68,317 |
| Income tax expenses for the year | (11,500,243) | (26,115,309) | (12,536,073) |

## 9. PROFIT FOR THE YEAR

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Profit for the year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 20,653,498 | 36,268,972 | 36,970,582 |
| Depreciation and amortisation of property, plant and equipment *(note 12)* | 2,886,824 | 3,566,671 | 4,121,545 |
| Salaries and other benefits | 9,762,458 | 15,356,395 | 14,724,184 |
| Retirement benefit costs | 170,428 | 790,588 | 870,876 |
| Total staff costs | 9,932,886 | 16,146,983 | 15,595,060 |
| Bank interest income | (2,380) | (4,836) | (68,527) |
| Imputed interest on amounts due from fellow subsidiaries | (220,192) | (2,735,715) | (7,993,904) |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

During the Relevant Periods, no fees or other emoluments was paid or payable by Fuyuan Dahe to its directors.

During the Relevant Periods, no remuneration was paid by Fuyuan Dahe to its directors as an inducement to join or upon joining Fuyuan Dahe or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

### Employees' emoluments

The five highest paid individuals for the Relevant Periods were as follows:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Salaries and other allowances | 694,596 | 663,078 | 596,910 |
| Contributions to retirement benefit schemes | 4,034 | 4,340 | 6,831 |
| | 698,630 | 667,418 | 603,741 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Fuyuan Dahe to the five highest paid individuals as an inducement to join Fuyuan Dahe as compensation for loss of office.

## 11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | | |
| At 1 January 2010 | 855,689 | 298,944,000 | 3,026,190 | 1,900,138 | 149,860 | 34,808,154 | 339,684,031 |
| Additions | 74,419 | 17,066,700 | 3,546,979 | 302,982 | 1,868,218 | 81,953,699 | 104,812,997 |
| Transfer | 383,000 | — | — | — | — | (383,000) | — |
| At 31 December 2010 | 1,313,108 | 316,010,700 | 6,573,169 | 2,203,120 | 2,018,078 | 116,378,853 | 444,497,028 |
| Additions | — | 30,465,200 | 3,655,128 | — | 6,446,136 | 86,966,023 | 127,532,487 |
| At 31 December 2011 | 1,313,108 | 346,475,900 | 10,228,297 | 2,203,120 | 8,464,214 | 203,344,876 | 572,029,515 |
| Additions | — | 240,000 | 2,130,353 | — | — | 58,077,733 | 60,448,086 |
| Transfer | 5,631,784 | 166,864,046 | 346,623 | — | — | (172,842,453) | — |
| At 31 December 2012 | 6,944,892 | 513,579,946 | 12,705,273 | 2,203,120 | 8,464,214 | 88,580,156 | 632,477,601 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 January 2010 | 39,487 | 437,931 | 107,168 | 85,187 | 4,323 | — | 674,096 |
| Provided for the year | 4,161 | 2,143,978 | 320,936 | 339,636 | 78,113 | — | 2,886,824 |
| At 31 December 2010 | 43,648 | 2,581,909 | 428,104 | 424,823 | 82,436 | — | 3,560,920 |
| Provided for the year | 47,751 | 1,924,768 | 590,929 | 363,765 | 639,458 | — | 3,566,671 |
| At 31 December 2011 | 91,399 | 4,506,677 | 1,019,033 | 788,588 | 721,894 | — | 7,127,591 |
| Provided for the year | 145,432 | 1,953,186 | 843,004 | 363,784 | 816,139 | — | 4,121,545 |
| At 31 December 2012 | 236,831 | 6,459,863 | 1,862,037 | 1,152,372 | 1,538,033 | — | 11,249,136 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 1,269,460 | 313,428,791 | 6,145,065 | 1,778,297 | 1,935,642 | 116,378,853 | 440,936,108 |
| At 31 December 2011 | 1,221,709 | 341,969,223 | 9,209,264 | 1,414,532 | 7,742,320 | 203,344,876 | 564,901,924 |
| At 31 December 2012 | 6,708,061 | 507,120,083 | 10,843,236 | 1,050,748 | 6,926,181 | 88,580,156 | 621,228,465 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 7 to 8 years but in the opinion of the directors of Fuyuan Dahe, Fuyuan Dahe will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mine.

During the year ended 31 December 2012, the operation in mines of Fuyuan Dahe have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB88,580,156 and RMB532,648,309, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Fuyuan Dahe considers that Fuyuan Dahe will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Fuyuan Dahe for the next five years, taking into account the best estimates of management of Fuyuan Dahe concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Fuyuan Dahe. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Fuyuan Dahe has determined that there is no impairment of the mining structure and mining rights.

## 13. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Auxiliary materials and spare parts | 3,172,590 | 4,296,391 | 794,289 |

## 14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2012, included in other receivables, deposits and prepayments is an amount of RMB2,430,000 prepayment for advisory service to Huaneng, a shareholder of Fuyuan Dahe.

## 15. BANK BALANCES AND CASH

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carry interests at market rates range from 0.35% to 0.50% per annum.

## 16. TRADE PAYABLES

The aged analysis of Fuyuan Dahe's trade payables based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 692,567 | 2,646,664 | 3,174,523 |
| 91–180 days | — | — | 837,677 |
| 181–365 days | — | 24,330 | 1,112,479 |
| Over 365 days | — | 35,350 | 309,436 |
| | 692,567 | 2,706,344 | 5,434,115 |

The average credit period on purchases of goods is 90 days.

## 17. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2010, 31 December 2011 and 31 December 2012, included in other payables and accrued expenses is other tax payables of RMB7,408,937, RMB10,247,925 and RMB1,788,749, respectively.

## 18. PAID IN CAPITAL

| | |
|---|---|
| | *RMB* |
| Registered and fully paid 1 January 2010, 31 December 2010, 2011 and 2012 | 42,000,000 |
| Capital injection | 25,741,900 |
| Registered and fully paid at 31 December 2012 | 67,741,900 |

On 28 August 2012, the total registered capital of Fuyuan Dahe increased from RMB42,000,000 to RMB67,741,900 and Huaneng paid an additional contribution of RMB270,000,000 in September 2012, of which RMB25,741,900 as paid in capital and RMB244,258,100 as capital reserve.

## 19. AMOUNTS DUE FROM AND TO GROUP COMPANIES

At 31 December 2010, 31 December 2011 and 31 December 2012, except for amounts due from fellow subsidiaries of RMB41,506,118, RMB77,701,535 and RMB180,764,908, respectively, which will be recovered in three to four year time from initial recognition, amounts due from fellow subsidiaries are expected to be recovered in one year. The effective interest of amounts due from fellow subsidiaries expected to be recovered in three to four year time was ranged from 6.15% to 6.40% per annum. All amounts due from fellow subsidiaries are interest free and unsecured.

Except for amount due to an intermediate holding company at 31 December 2010, 31 December 2011 and 31 December 2012 of RMB73,245,420, RMB5,099,605 and RMB5,182,248, respectively which bear interest ranged from 6.372% to 8.63% per annum, other amounts due to group companies are interest free. All amounts due to group companies are unsecured and repayable on demand.

There is no credit terms and policies on the trading balances with group companies.

## 20. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | |
|---|---|
| | *RMB* |
| At 1 January 2010 and 31 December 2010 | — |
| Provision for the year | 164,013 |
| At 31 December 2011 | 164,013 |
| Provision for the year | 103,036 |
| At 31 December 2012 | 267,049 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Fuyuan Dahe is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 21. CAPITAL RISK MANAGEMENT

Fuyuan Dahe manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fuyuan Dahe remains unchanged throughout the Relevant Period.

The capital structure of Fuyuan Dahe consists of debts, which include amounts due to group companies as disclosed in note 19, net of cash and cash equivalents and equity attributable to owners of Fuyuan Dahe, comprising paid in capital, reserves and retained profits.

The directors of Fuyuan Dahe review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Fuyuan Dahe will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

## 22. RELATED PARTY TRANSACTIONS

During the Relevant Periods, Fuyuan Dahe entered into the following transactions with related parties:

**(a) Transactions**

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Fellow subsidiaries: | | | |
| Purchases | 6,849,722 | 31,914,961 | 34,560 |
| Sales | 75,529,382 | 141,807,832 | 96,619,008 |
| Intermediate holding company: | | | |
| Interest expenses | 3,591,684 | 100,605 | 654,349 |
| A shareholder: | | | |
| Advisory fee paid and payable | — | — | 810,000 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 14 and 19.

**23. CAPITAL COMMITMENTS**

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | 37,727,366 | 28,286,448 | 27,569,377 |

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Fuyuan Dahe's mines were resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Fuyuan Dahe have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

**Deloitte.**
**德勤**

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Fuyuan County Tonghe Coal Industry Co., Ltd. ("**Fuyuan Tonghe**") for the period from 21 June 2010 (date of establishment) to 31 December 2010 and each of the two years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Fuyuan Tonghe and certain other subsidiaries of the Company and share transfers.

Fuyuan Tonghe was established with limited liability in the People's Republic of China (the "**PRC**") on 21 June 2010.

The statutory financial statements of Fuyuan Tonghe were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Fuyuan Tonghe for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Fuyuan Tonghe have prepared the financial statements of Fuyuan Tonghe for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Fuyuan Tonghe for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Fuyuan Tonghe who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Fuyuan Tonghe as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information which indicates that Fuyuan Tonghe's current liabilities exceeded its current assets by RMB137,247,359 as at 31 December 2012. As described in note 1 to the Financial Information, the Company has agreed to provide financial support to Fuyuan Tonghe to meet in full its financial obligations as and when they fall due in the foreseeable future. However, the Company's going concern is dependent on the successful implementation of a number of measures as disclosed in note 1 to the Financial Information to improve its financial position. The eventual success of these measures cannot presently be determined and accordingly this indicates the existence of a material uncertainty which may cast significant doubt about Fuyuan Tonghe's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from a failure of the Company to implement such measures as disclosed in note 1 to the Financial Information.

## A. FINANCIAL INFORMATION

### Statements of Comprehensive Income

| | Notes | For the period from 21 June 2010 (date of establishment) to 31 December 2010 RMB | For the year ended 31 December 2011 RMB | 2012 RMB |
|---|---|---|---|---|
| Revenue | 6 | 67,878,588 | 55,978,079 | 43,189,891 |
| Cost of sales | | (24,962,046) | (25,431,441) | (20,805,261) |
| Gross profit | | 42,916,542 | 30,546,638 | 22,384,630 |
| Other income | | 6,941 | 2,524,174 | 6,502,009 |
| Administrative expenses | | (3,062,680) | (5,529,667) | (9,245,121) |
| Finance costs | 7 | (801,810) | (6,260,348) | (10,960,831) |
| Profit before tax | | 39,058,993 | 21,280,797 | 8,680,687 |
| Income tax expense | 8 | (9,784,617) | (314,863) | (3,313,524) |
| Profit and total comprehensive income for the period/year | 9 | 29,274,376 | 20,965,934 | 5,367,163 |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2010** | **2011** | **2012** |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 167,347,844 | 254,473,209 | 275,355,500 |
| Deposits | *13* | 12,800,000 | — | — |
| Amounts due from fellow subsidiaries | *19* | 15,431,834 | 65,232,730 | 142,800,262 |
| | | 195,579,678 | 319,705,939 | 418,155,762 |
| CURRENT ASSETS | | | | |
| Inventories | *14* | 4,784,524 | 1,579,741 | 1,429,835 |
| Other receivables, deposits and prepayments | *13* | 3,423,679 | 2,764,477 | 5,590,148 |
| Amount due from immediate holding company | *19* | — | 5,755,822 | — |
| Amount due from an intermediate holding company | *19* | — | 466,367 | 11,928,352 |
| Amounts due from fellow subsidiaries | *19* | 24,736,549 | 41,907,306 | 86,870,316 |
| Bank balances and cash | *15* | 1,238,957 | 633,488 | 75,299 |
| | | 34,183,709 | 53,107,201 | 105,893,950 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *16* | 837,106 | 1,694,407 | 2,993,262 |
| Other payables and accrued expenses | *17* | 9,902,507 | 27,180,944 | 15,651,479 |
| Amount due to immediate holding company | *19* | 5,969,518 | — | 11,493,125 |
| Amount due to an intermediate holding company | *19* | 39,533,633 | 168,969,000 | 167,938,313 |
| Amounts due to fellow subsidiaries | *19* | 25,497,815 | 15,098,943 | 32,763,327 |
| Tax payables | | 9,784,617 | 10,069,996 | 12,301,803 |
| | | 91,525,196 | 223,013,290 | 243,141,309 |
| NET CURRENT LIABILITIES | | (57,341,487) | (169,906,089) | (137,247,359) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 138,238,191 | 149,799,850 | 280,908,403 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *20* | 122,248 | 277,024 | 400,386 |
| NET ASSETS | | 138,115,943 | 149,522,826 | 280,508,017 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *18* | 3,000,000 | 3,000,000 | 5,000,000 |
| Reserves | | 135,115,943 | 146,522,826 | 275,508,017 |
| TOTAL EQUITY | | 138,115,943 | 149,522,826 | 280,508,017 |

## Statements of Changes in Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note (i))* | Future development fund *RMB* *(Note (ii))* | Retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 21 June 2010 (date of establishment) | 3,000,000 | — | — | — | — | 3,000,000 |
| Capital injection by mean of assets injection | — | 110,330,291 | — | — | — | 110,330,291 |
| Profit and total comprehensive income for the period | — | — | — | — | 29,274,376 | 29,274,376 |
| Deemed distribution on interest free loan granted to fellow subsidiaries | — | — | — | — | (4,488,724) | (4,488,724) |
| Transfer | — | — | 4,443,075 | — | (4,443,075) | — |
| At 31 December 2010 | 3,000,000 | 110,330,291 | 4,443,075 | — | 20,342,577 | 138,115,943 |
| Profit and total comprehensive income for the year | — | — | — | — | 20,965,934 | 20,965,934 |
| Deemed distribution on interest free loan granted to fellow subsidiaries | — | — | — | — | (9,559,051) | (9,559,051) |
| Transfer | — | — | 2,036,233 | — | (2,036,233) | — |
| At 31 December 2011 | 3,000,000 | 110,330,291 | 6,479,308 | — | 29,713,227 | 149,522,826 |
| Profit and total comprehensive income for the year | — | — | — | — | 5,367,163 | 5,367,163 |
| Deemed distribution on interest free loan granted to fellow subsidiaries | — | — | — | — | (14,381,972) | (14,381,972) |
| Transfer | — | — | 5,846,468 | 4,000 | (5,850,468) | — |
| Capital injection | 2,000,000 | 138,000,000 | — | — | — | 140,000,000 |
| At 31 December 2012 | 5,000,000 | 248,330,291 | 12,325,776 | 4,000 | 14,847,950 | 280,508,017 |

*Notes:*

(i) According to the Articles of Association of Fuyuan Tonghe, Fuyuan Tonghe is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Fuyuan Tonghe while Fuyuan Tonghe can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Fuyuan Tonghe.

(ii) Pursuant to the relevant regulations in the PRC, Fuyuan Tonghe is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the period from 21 June 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit before tax | 39,058,993 | 21,280,797 | 8,680,687 |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 1,593,262 | 3,994,662 | 2,990,376 |
| Interest expense | 801,810 | 6,260,348 | 10,960,831 |
| Imputed interest income on amounts due from fellow subsidiaries | — | (2,490,683) | (6,387,426) |
| Interest income | (4,437) | (4,339) | (20,747) |
| Provision for restoration and environmental costs | 122,248 | 154,776 | 123,362 |
| Operating cash flows before movements in working capital | 41,571,876 | 29,195,561 | 16,347,083 |
| (Increase) decrease in inventories | (4,784,524) | 3,204,783 | 149,906 |
| (Increase) decrease in other receivables, deposits and prepayments | (3,423,679) | 659,202 | (2,825,671) |
| Increase in trade payables | 837,106 | 857,301 | 1,298,855 |
| Increase (decrease) in other payables and accrued expenses | 9,902,507 | 7,036,917 | (13,813,126) |
| Cash from operations | 44,103,286 | 40,953,764 | 1,157,047 |
| Income taxes paid | — | (29,484) | (1,081,717) |
| NET CASH FROM OPERATING ACTIVITIES | 44,103,286 | 40,924,280 | 75,330 |
| INVESTING ACTIVITIES | | | |
| Advance to an intermediate holding company | — | (466,367) | (16,281,985) |
| Advance to immediate holding company | — | (31,437,239) | (5,106,277) |
| Purchase of and deposits paid for acquisition of property, plant and equipment | (71,410,815) | (67,369,855) | (18,344,462) |
| Advance to fellow subsidiaries | (46,869,365) | (124,925,409) | (419,436,200) |
| Repayment from fellow subsidiaries | 2,212,258 | 50,885,388 | 288,911,112 |
| Repayment from immediate holding company | — | 25,681,417 | 10,862,099 |
| Interest received | 4,437 | 4,339 | 20,747 |
| Repayment from an intermediate holding company | — | — | 4,820,000 |
| NET CASH USED IN INVESTING ACTIVITIES | (116,063,485) | (147,627,726) | (154,554,966) |

| | For the period from 21 June 2010 (date of establishment) to 31 December 2010 RMB | For the year ended 31 December 2011 RMB | 2012 RMB |
|---|---|---|---|
| FINANCING ACTIVITIES | | | |
| Advance from immediate holding company | 19,701,341 | — | 22,358,265 |
| Advance from fellow subsidiaries | 25,497,815 | 28,119,619 | 74,569,282 |
| Advance from an intermediate holding company | 39,533,633 | 168,969,000 | 167,938,313 |
| Capital injection | 3,000,000 | — | 140,000,000 |
| Repayment to immediate holding company | (13,731,823) | (5,969,518) | (10,865,140) |
| Repayment to an intermediate holding company | — | (39,533,633) | (168,969,000) |
| Repayment to fellow subsidiaries | — | (38,518,491) | (56,904,898) |
| Interest paid | (801,810) | (6,969,000) | (14,205,375) |
| NET CASH FROM FINANCING ACTIVITIES | 73,199,156 | 106,097,977 | 153,921,447 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,238,957 | (605,469) | (558,189) |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | — | 1,238,957 | 633,488 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD representing bank balances and cash | 1,238,957 | 633,488 | 75,299 |

## Notes to the Financial Information

### 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The principally activities of Fuyuan Tonghe is mining and sale of raw coal. Its immediate holding company is Liupanshui Hidili Industry Co., Limited, a company established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Fuyuan Tonghe. In the opinion of the directors of Fuyuan Tonghe, the ultimate holding company of Fuyuan Tonghe is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Fuyuan Tonghe is Xinjiang Mine, Mohong Town, Fuyuan County, Yunnan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Fuyuan Tonghe.

In preparing the Underlying Financial Statements, the directors of Fuyuan Tonghe have taken into consideration that Fuyuan Tonghe's current liabilities exceeded its current assets by RMB137,247,359 as at 31 December 2012.

The Financial Information has been prepared on a going concern basis because the Company has agreed to provide financial support to Fuyuan Tonghe to meet in full its financial obligations as and when they fall due in the foreseeable future. The Company has been implementing a number of measures to improve its financial position, including but not limited to: (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities of not less than RMB2.5 billion; (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million; and (3) proposed disposal of 50% equity interests in certain of its subsidiaries for a total consideration of RMB2.4 billion, details of which are set out in the Company's announcement dated 24 May 2013. The directors of Fuyuan Tonghe believe that the above measures can be successfully implemented and therefore the Company will have sufficient working capital to finance the operations of Fuyuan Tonghe and Fuyuan Tonghe can meet its financial obligations as and when they fall due for the foreseeable future.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Fuyuan Tonghe has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Fuyuan Tonghe's financial year beginning on 1 January 2012.

Fuyuan Tonghe has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Fuyuan Tonghe anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Fuyuan Tonghe.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Fuyuan Tonghe has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Fuyuan Tonghe retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Fuyuan Tonghe; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Fuyuan Tonghe and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Fuyuan Tonghe's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from "profit before tax" as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Fuyuan Tonghe's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Fuyuan Tonghe expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Fuyuan Tonghe is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Fuyuan Tonghe has a present obligation as a result of a past event, it is probable that Fuyuan Tonghe will be required to settle the obligation. Provisions are measured at the directors of Fuyuan Tonghe's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Fuyuan Tonghe becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Fuyuan Tonghe's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits, amount due from immediate holding company, amounts due from an intermediate holding company, amounts due from fellow subsidiaries and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Fuyuan Tonghe derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Fuyuan Tonghe are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Fuyuan Tonghe after deducting all of its liabilities. Equity instruments issued by Fuyuan Tonghe are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amount due to an intermediate holding company, amount due to immediate holding company and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Fuyuan Tonghe derecognises financial liabilities when, and only when, Fuyuan Tonghe's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Fuyuan Tonghe reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Fuyuan Tonghe estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Fuyuan Tonghe's accounting policies, which are described in note 3, the directors of Fuyuan Tonghe are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value.

Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Fuyuan Tonghe assess annually the residual value and the useful life of the property, plant and equipment as well as the reserve of the coal mine. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB167,347,844, RMB254,473,209 and RMB275,355,500 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Fuyuan Tonghe's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB106,990,898, RMB133,927,195 and RMB187,845,241 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Fuyuan Tonghe consider that Fuyuan Tonghe continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Fuyuan Tonghe to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB106,990,898, RMB133,927,195 and RMB187,845,241, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 44,472,307 | 116,760,190 | 244,780,502 |
| **Financial liabilities** | | | |
| Amortised cost | 72,215,699 | 196,092,370 | 228,006,263 |

### (b) Financial risk management objectives and policies

Fuyuan Tonghe's major financial instruments include other receivables and deposits, bank balances, trade payables, other payables and amounts due from and to group companies. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Fuyuan Tonghe manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *(i) Market risk*

*Interest rate risk*

Fuyuan Tonghe is exposed to cash flow interest rate risk in relation to variable rate bank balances and fair value interest rate risk in relation to certain balances of amount due to an intermediate holding company which carry fixed interest rate (see notes 15 and 19 for details). The directors of Fuyuan Tonghe consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Fuyuan Tonghe currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Fuyuan Tonghe consider the amount is insignificant.

#### *(ii) Credit risk*

As at the end of each reporting period, Fuyuan Tonghe's maximum exposure to credit risk which will cause a financial loss to Fuyuan Tonghe due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statements of financial position.

Management of Fuyuan Tonghe reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Fuyuan Tonghe considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Fuyuan Tonghe reviews the financial position and repayment liabilities of respective companies, Fuyuan Tonghe does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

***(iii) Liquidity risk***

In the management of the liquidity risk, Fuyuan Tonghe monitors and maintains a level of cash and cash equivalents deemed adequate by management of Fuyuan Tonghe to finance the its operations and mitigate the effects of fluctuations in cash flows.

Fuyuan Tonghe relies on advances from group companies as a significant source of liquidity. Details of which are set out in note 19.

At 31 December 2012, Fuyuan Tonghe had net current liabilities of RMB137,247,359. As the Company has agreed to provide financial support to Fuyuan Tonghe to meet in full its financial obligations as they fall due in the foreseeable future, the directors of Fuyuan Tonghe consider the liquidity risk of Fuyuan Tonghe is insignificant.

The financial liabilities carried at amortised cost were required to be settled on demand or less than three months according to respective contractual provision at 31 December 2010, 31 December 2011 and 31 December 2012.

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Fuyuan Tonghe considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Fuyuan Tonghe, being the chief operating decision makers, assess the performance and allocate the resources of Fuyuan Tonghe as a whole because Fuyuan Tonghe is mainly engaged in mining. Therefore, the directors of Fuyuan Tonghe consider that Fuyuan Tonghe only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Fuyuan Tonghe are located in the PRC.

**Information about major customers**

Revenue from sales of raw coals are substantially contributed from fellow subsidiaries and immediate holding company of Fuyuan Tonghe. Details of related party transactions are disclosed in note 22(a).

## 7. FINANCE COST

| | For the period from 21 June 2010 (date of establishment) to 31 December 2010 RMB | For the year ended 31 December 2011 RMB | 2012 RMB |
|---|---|---|---|
| Interest expenses on borrowings wholly repayable within five years: | | | |
| — amount due to an intermediate holding company | 801,810 | 6,969,000 | 14,205,375 |
| Less: Interest capitalised in construction in progress | — | (708,652) | (3,244,544) |
| | 801,810 | 6,260,348 | 10,960,831 |

## 8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as Fuyuan Tonghe's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of Fuyuan Tonghe is 25% during the Relevant Periods.

The taxation during the Relevant Periods can be reconciled to the profit before tax per statements of comprehensive income as follows:

| | For the period from 21 June 2010 (date of establishment) to 31 December 2010 RMB | For the year ended 31 December 2011 RMB | 2012 RMB |
|---|---|---|---|
| Profit before tax | 39,058,993 | 21,280,797 | 8,680,687 |
| Tax at applicable tax rate of 25% | 9,764,748 | 5,320,199 | 2,170,172 |
| Tax effect of expenses that are not deductible in determining taxable profit | 19,869 | 24,944 | 215,424 |
| Tax effect of income that are not taxable in determining taxable profit | — | (622,671) | (1,596,866) |
| Others | — | (4,407,609) | 2,524,794 |
| Income tax expense for the period/year | 9,784,617 | 314,863 | 3,313,524 |

## 9. PROFIT FOR THE PERIOD/YEAR

| | For the period from 21 June 2010 (date of establishment) to 31 December 2010 *RMB* | For the year ended 31 December 2011 *RMB* | 2012 *RMB* |
|---|---|---|---|
| Profit for the period/year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 24,962,046 | 25,431,441 | 20,805,261 |
| Depreciation and amortisation of property, plant and equipment | 1,593,262 | 3,994,662 | 2,990,376 |
| Salaries and other benefits | 11,761,068 | 10,581,105 | 9,467,119 |
| Retirement benefit costs | 174,057 | 607,762 | 978,947 |
| Total staff costs | 11,935,125 | 11,188,867 | 10,446,066 |
| Bank interest income | (4,437) | (4,339) | (20,747) |
| Imputed interest income on amounts due from fellow subsidiaries | — | (2,490,683) | (6,387,426) |

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

During the Relevant Periods, no fees or other emoluments was paid or payable by Fuyuan Tonghe to its directors.

During the Relevant Periods, no remuneration was paid by Fuyuan Tonghe to its directors as an inducement to join or upon joining Fuyuan Tonghe or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

### Employees' emoluments

The five highest paid individuals for the Relevant Periods were as follows:

| | For the period from 21 June 2010 (date of establishment) to 31 December 2010 *RMB* | For the year ended 31 December 2011 *RMB* | 2012 *RMB* |
|---|---|---|---|
| Salaries and other allowances | 438,523 | 697,521 | 508,122 |
| Contributions to retirement benefit schemes | 6,519 | 4,338 | 5,480 |
| | 445,042 | 701,859 | 513,602 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Fuyuan Tonghe to the five highest paid individuals as an inducement to join Fuyuan Tonghe as compensation for loss of office.

## 11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Mining structures and mining rights | Machinery | Motor vehicles | Office and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | | |
| At 21 June 2010 (date of establishment) | — | — | — | — | — | — | — |
| Additions | 182,398 | 108,275,168 | 14,261,340 | 472,384 | 15,702 | 45,734,114 | 168,941,106 |
| Transfer | — | — | 50,274 | — | — | (50,274) | — |
| At 31 December 2010 | 182,398 | 108,275,168 | 14,311,614 | 472,384 | 15,702 | 45,683,840 | 168,941,106 |
| Additions | — | 28,514,398 | 795,309 | — | 146,068 | 61,664,252 | 91,120,027 |
| Transfer | 47,032 | — | — | — | — | (47,032) | — |
| At 31 December 2011 | 229,430 | 136,789,566 | 15,106,923 | 472,384 | 161,770 | 107,301,060 | 260,061,133 |
| Additions | — | — | 65,700 | 12,000 | 22,398 | 23,772,569 | 23,872,667 |
| Transfer | — | 55,215,134 | 9,782,186 | — | — | (64,997,320) | — |
| At 31 December 2012 | 229,430 | 192,004,700 | 24,954,809 | 484,384 | 184,168 | 66,076,309 | 283,933,800 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 21 June 2010 (date of establishment) | — | — | — | — | — | — | — |
| Provided for the period | 6,984 | 1,284,270 | 204,743 | 95,117 | 2,148 | — | 1,593,262 |
| At 31 December 2010 | 6,984 | 1,284,270 | 204,743 | 95,117 | 2,148 | — | 1,593,262 |
| Provided for the year | 8,226 | 1,578,101 | 2,319,092 | 74,858 | 14,385 | — | 3,994,662 |
| At 31 December 2011 | 15,210 | 2,862,371 | 2,523,835 | 169,975 | 16,533 | — | 5,587,924 |
| Provided for the year | 12,391 | 1,297,088 | 1,554,910 | 106,247 | 19,740 | — | 2,990,376 |
| At 31 December 2012 | 27,601 | 4,159,459 | 4,078,745 | 276,222 | 36,273 | — | 8,578,300 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2010 | 175,414 | 106,990,898 | 14,106,871 | 377,267 | 13,554 | 45,683,840 | 167,347,844 |
| At 31 December 2011 | 214,220 | 133,927,195 | 12,583,088 | 302,409 | 145,237 | 107,301,060 | 254,473,209 |
| At 31 December 2012 | 201,829 | 187,845,241 | 20,876,064 | 208,162 | 147,895 | 66,076,309 | 275,355,500 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Motor vehicles, office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 6 years but in the opinion of the directors of Fuyuan Tonghe, Fuyuan Tonghe will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

The legal titles of the mining rights have been granted by the relevant government authorities as at 31 December 2010, 31 December 2011 and 31 December 2012.

During the year ended 31 December 2012, the operation in mines of Fuyuan Tonghe have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB66,076,309 and RMB209,279,191, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Fuyuan Tonghe considers that Fuyuan Tonghe will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Fuyuan Tonghe for the next five years, taking into account the best estimates of management of Fuyuan Tonghe concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Fuyuan Tonghe. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Fuyuan Tonghe has determined that there is no impairment of the mining structure and mining rights.

## 13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2010, the deposits of RMB12,800,000 included in non-current assets were paid for acquisition of mines in the PRC.

At 31 December 2012, included in other receivables, deposits and prepayments is an amount of RMB1,260,000 prepayment for advisory service to Huaneng, a shareholder of Fuyuan Tonghe.

## 14. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Coal products | 3,855,247 | 972,677 | 424,391 |
| Auxiliary materials and spare parts | 929,277 | 607,064 | 1,005,444 |
| | 4,784,524 | 1,579,741 | 1,429,835 |

## 15. BANK BALANCES AND CASH

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carry interests at market rates range from 0.35% to 0.50% per annum.

## 16. TRADE PAYABLES

The aged analysis of Fuyuan Tonghe's trade payables based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 643,746 | 1,668,802 | 1,519,137 |
| 91–180 days | 66,580 | 13,075 | 830,320 |
| 181–365 days | 126,780 | 12,530 | 631,275 |
| Over 365 days | — | — | 12,530 |
| | 837,106 | 1,694,407 | 2,993,262 |

The average credit period on purchases of goods is 90 days.

## 17. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2010, 31 December 2011 and 31 December 2012, included in other payables and accrued expenses is payable for acquisition of property, plant and equipment of nil, RMB10,241,520 and RMB12,525,181; and other tax payables of RMB7,266,911, RMB15,624,999 and RMB2,622,805, respectively.

## 18. PAID IN CAPITAL

| | |
|---|---|
| | *RMB* |
| Registered and fully paid at 21 June 2010 (date of establishment), 31 December 2010 and 2011 | 3,000,000 |
| Capital injection | 2,000,000 |
| Registered and fully paid at 31 December 2012 | 5,000,000 |

Fuyuan Tonghe was established with registered capital of RMB3,000,000 on 21 June 2010. The registered capital was fully paid at the date of establishment. On 28 August 2012, the total registered capital of Fuyuan Tonghe increased from RMB3,000,000 to RMB5,000,000 and Huaneng paid an additional contribution of RMB140,000,000 in September 2012, of which RMB2,000,000 as paid in capital and RMB138,000,000 as capital reserve.

## 19. AMOUNTS DUE FROM AND TO GROUP COMPANIES

At 31 December 2010, 31 December 2011 and 31 December 2012, except for amounts due from fellow subsidiaries of RMB15,431,834, RMB65,232,730 and RMB142,800,262, respectively, which will be recovered in three year time from initial recognition, amounts due from group companies are expected to be recovered in one year. The effective interest of amounts due from fellow subsidiaries expected to be recovered in three year time was 6.15% per annum. All amounts due from group companies are interest free and unsecured.

Except for amount due to an intermediate holding company at 31 December 2010, 31 December 2011 and 31 December 2012 of RMB39,533,633, RMB168,969,000 and RMB167,938,313 respectively which bear interest at 8.63% per annum, other amounts due to group companies are interest free. All amounts due to group companies are unsecured and repayable on demand.

There is no credit terms and policies on the trading balances with group companies.

## 20. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | *RMB* |
|---|---|
| At 21 June 2010 (date of establishment) | — |
| Provision for the period | 122,248 |
| At 31 December 2010 | 122,248 |
| Provision for the year | 154,776 |
| At 31 December 2011 | 277,024 |
| Provision for the year | 123,362 |
| At 31 December 2012 | 400,386 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Fuyuan Tonghe is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 21. CAPITAL RISK MANAGEMENT

Fuyuan Tonghe manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fuyuan Tonghe remains unchanged throughout the Relevant Period.

The capital structure of Fuyuan Tonghe consists of debts, which include amounts due to group companies as disclosed in note 19, net of cash and cash equivalents and equity attributable to owners of Fuyuan Tonghe, comprising paid in capital, reserves and retained profits.

The directors of Fuyuan Tonghe review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Fuyuan Tonghe will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

### 22. RELATED PARTY TRANSACTIONS

During the Relevant Periods, Fuyuan Tonghe entered into the following transactions with related parties:

**(a) Transactions**

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Immediate holding company: | | | |
| Sales | 9,775,417 | — | — |
| Purchases | 25,160,478 | 8,428,316 | — |
| Fellow subsidiaries: | | | |
| Sales | 57,256,541 | 54,714,135 | 43,189,891 |
| Purchases | 1,359,657 | 3,684,109 | 6,183,375 |
| Intermediate holding company: | | | |
| Interest expense | 801,810 | 6,969,000 | 14,205,375 |
| A shareholder: | | | |
| Advisory fee paid and payable | — | — | 420,000 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 13 and 19.

### 23. MAJOR NON-CASH TRANSACTIONS

During the period from 21 June 2010 to 31 December 2010, immediate holding company of Fuyuan Tonghe injected property, plant and equipment with carrying amounts of RMB110,330,291 to Fuyuan Tonghe.

### 24. CAPITAL COMMITMENTS

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | 18,955,206 | 15,270,129 | 10,256,444 |

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Fuyuan Tonghe's mine was resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Fuyuan Tonghe have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the text of the accountant's report of the Target Subsidiaries prepared by Company's auditors, Deloitte Touche Tohmatsu, for the purpose of incorporation in this circular.*

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25 June 2013

The Directors
Hidili Industry International Development Limited
Room 3702, 37th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information ("**Financial Information**") regarding Fuyuan County Jintai Coal Industry Co., Ltd. ("**Fuyuan Jintai**") for the period from 19 January 2010 (date of establishment) to 31 December 2010 and each of the two years ended 31 December 2012 (the "**Relevant Periods**") for inclusion in a circular issued by Hidili Industry International Development Limited (the "**Company**") dated 25 June 2013 (the "**Circular**") in connection with the major transactions in relation to the capital injections by Huaneng Guicheng Trust Co., Ltd. ("**Huaneng**") to Fuyuan Jintai and certain other subsidiaries of the Company and share transfers.

Fuyuan Jintai was established with limited liability in the People's Republic of China (the "**PRC**") on 19 January 2010.

The statutory financial statements of Fuyuan Jintai were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory financial statements of Fuyuan Jintai for the Relevant Periods were audited by Sichuan Jing Wei Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

For the purpose of this report, the directors of Fuyuan Jintai have prepared the financial statements of Fuyuan Jintai for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Fuyuan Jintai for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Fuyuan Jintai who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Fuyuan Jintai as at 31 December 2010, 31 December 2011 and 31 December 2012 and of its results and cash flows for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information which indicates that Fuyuan Jintai's current liabilities exceeded its current assets by RMB235,214,292 as at 31 December 2012. As described in note 1 to the Financial Information, the Company has agreed to provide financial support to Fuyuan Jintai to meet in full its financial obligations as and when they fall due in the foreseeable future. However, the Company's going concern is dependent on the successful implementation of a number of measures as disclosed in note 1 to the Financial Information to improve its financial position. The eventual success of these measures cannot presently be determined and accordingly this indicates the existence of a material uncertainty which may cast significant doubt about Fuyuan Jintai's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from a failure of the Company to implement such measures as disclosed in note 1 to the Financial Information.

## A. FINANCIAL INFORMATION

### Statements of Comprehensive Income

| | Notes | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|---|
| | | *RMB* | *RMB* | *RMB* |
| Revenue | *6* | 43,578,458 | 102,465,673 | 36,924,038 |
| Cost of sales | | (12,229,357) | (21,676,572) | (21,824,230) |
| Gross profit | | 31,349,101 | 80,789,101 | 15,099,808 |
| Other income | | 54,399 | 4,072,830 | 8,261,723 |
| Administrative expenses | | (2,210,905) | (2,524,571) | (6,877,103) |
| Finance costs | *7* | (7,056,312) | (9,883,498) | (10,889,671) |
| Profit before tax | | 22,136,283 | 72,453,862 | 5,594,757 |
| Income tax expense | *8* | (6,602,728) | (19,607,041) | (1,862,611) |
| Profit and total comprehensive income for the period/year | *9* | 15,533,555 | 52,846,821 | 3,732,146 |

**Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | 2010 | 2011 | 2012 |
| | *Notes* | *RMB* | *RMB* | *RMB* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | *12* | 218,660,951 | 293,076,485 | 317,254,988 |
| Loan receivable | *13* | 2,550,000 | — | — |
| Amount due from fellow subsidiaries | *16* | — | 128,004,042 | 136,102,024 |
| | | 221,210,951 | 421,080,527 | 453,357,012 |
| CURRENT ASSETS | | | | |
| Inventories | *14* | 3,470,520 | 2,471,894 | 838,404 |
| Other receivables, deposits and prepayments | *15* | 2,392,453 | 5,617,630 | 4,741,067 |
| Amounts due from fellow subsidiaries | *16* | 1,358,400 | 3,609,007 | 56,570,703 |
| Bank balances and cash | *17* | 130,900 | 881,362 | 300,045 |
| | | 7,352,273 | 12,579,893 | 62,450,219 |
| CURRENT LIABILITIES | | | | |
| Trade payables | *18* | 305,382 | 1,104,789 | 3,210,877 |
| Amounts due to shareholders | *16* | 67,119,267 | 227,136,631 | 222,326,636 |
| Amount due to an intermediate holding company | *16* | — | 6,923,699 | 5,400,000 |
| Amounts due to fellow subsidiaries | *16* | 26,658,763 | 88,830,156 | 16,450,107 |
| Other payables and accrued expenses | *19* | 15,876,457 | 25,017,738 | 26,025,852 |
| Tax payables | | 6,577,176 | 26,151,151 | 24,251,039 |
| | | 116,537,045 | 375,164,164 | 297,664,511 |
| NET CURRENT LIABILITIES | | (109,184,772) | (362,584,271) | (235,214,292) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 112,026,179 | 58,496,256 | 218,142,720 |
| NON-CURRENT LIABILITIES | | | | |
| Provision for restoration and environmental costs | *21* | 54,476 | 108,686 | 138,236 |
| Amounts due to fellow subsidiaries | *16* | 81,348,900 | — | 55,090,023 |
| | | 81,403,376 | 108,686 | 55,228,259 |
| NET ASSETS | | 30,622,803 | 58,387,570 | 162,914,461 |
| CAPITAL AND RESERVES | | | | |
| Paid in capital | *20* | 5,000,000 | 5,000,000 | 8,196,700 |
| Reserves | | 25,622,803 | 53,387,570 | 154,717,761 |
| TOTAL EQUITY | | 30,622,803 | 58,387,570 | 162,914,461 |

## Statements of Changes in Equity

| | Paid in capital *RMB* | Capital reserve *RMB* | Statutory surplus reserve *RMB* *(Note (i))* | Future development fund *RMB* *(Note (ii))* | Retained profits *RMB* | Total *RMB* |
|---|---|---|---|---|---|---|
| At 19 January 2010 (date of establishment) | 5,000,000 | — | — | — | — | 5,000,000 |
| Profit and total comprehensive income for the period | — | — | — | — | 15,533,555 | 15,533,555 |
| Deemed contribution on interest free loans granted from fellow subsidiaries | — | — | — | — | 10,089,248 | 10,089,248 |
| Transfer | — | — | 2,564,529 | — | (2,564,529) | — |
| At 31 December 2010 | 5,000,000 | — | 2,564,529 | — | 23,058,274 | 30,622,803 |
| Profit and total comprehensive income for the year | — | — | — | — | 52,846,821 | 52,846,821 |
| Deemed distribution on interest free loans granted to fellow subsidiaries | — | — | — | — | (25,082,054) | (25,082,054) |
| Transfer | — | — | 2,099,127 | — | (2,099,127) | — |
| At 31 December 2011 | 5,000,000 | — | 4,663,656 | — | 48,723,914 | 58,387,570 |
| Profit and total comprehensive income for the year | — | — | — | — | 3,732,146 | 3,732,146 |
| Deemed contribution on interest free loans granted from fellow subsidiaries | — | — | — | — | 10,794,745 | 10,794,745 |
| Transfer | — | — | 4,098,350 | 30,410 | (4,128,760) | — |
| Capital injection | 3,196,700 | 86,803,300 | — | — | — | 90,000,000 |
| At 31 December 2012 | 8,196,700 | 86,803,300 | 8,762,006 | 30,410 | 59,122,045 | 162,914,461 |

*Notes:*

(i) According to the Articles of Association of Fuyuan Jintai, Fuyuan Jintai is required to make an appropriation of 10% of its profit after taxation each year to statutory surplus reserve until the balance reaches 50% of the registered capital of Fuyuan Jintai while Fuyuan Jintai can make additional appropriation to statutory surplus reserve at their own discretion. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into paid in capital and expansion of the production and operation of Fuyuan Jintai.

(ii) Pursuant to the relevant regulations in the PRC, Fuyuan Jintai is required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

**Statements of Cash Flows**

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| OPERATING ACTIVITIES | | | |
| Profit before tax | 22,136,283 | 72,453,862 | 5,594,757 |
| Adjustments for: | | | |
| Depreciation and amortisation of property, plant and equipment | 866,070 | 2,209,385 | 1,886,324 |
| Interest expenses | 7,056,312 | 9,883,498 | 10,889,671 |
| Imputed interest income | — | (3,866,475) | (8,097,982) |
| Interest income | (4,400) | (4,530) | (13,741) |
| Provision for restoration and environmental cost | 54,476 | 54,210 | 29,550 |
| Operating cash flows before movements in working capital | 30,108,741 | 80,729,950 | 10,288,579 |
| (Increase) decrease in inventories | (3,470,520) | 998,626 | 1,633,490 |
| Increase in other receivables, deposits and prepayments | (2,392,453) | (675,177) | (1,673,437) |
| Increase in trade payables | 305,382 | 799,407 | 2,106,088 |
| Increase (decrease) in other payables and accrued expenses | 7,416,457 | 15,961,281 | (15,028,216) |
| Cash from (used in) operations | 31,967,607 | 97,814,087 | (2,673,496) |
| Income taxes paid | (25,552) | (33,066) | (3,762,723) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 31,942,055 | 97,781,021 | (6,436,219) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | (211,067,021) | (82,299,312) | (8,537,915) |
| Advance to fellow subsidiaries | (1,358,400) | (152,828,628) | (56,570,703) |
| Repayment from fellow subsidiaries | — | 1,358,400 | 3,609,007 |
| (Advance to) repayment from a loan receivable | (2,550,000) | — | 2,550,000 |
| Interest received | 4,400 | 4,530 | 13,741 |
| NET CASH USED IN INVESTING ACTIVITIES | (214,971,021) | (233,765,010) | (58,935,870) |

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 | For the year ended 31 December 2011 | 2012 |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| FINANCING ACTIVITIES | | | |
| Advance from fellow subsidiaries | 158,458,431 | 81,345,276 | 94,166,098 |
| Capital injection | 5,000,000 | — | 90,000,000 |
| Interest paid | (3,002,330) | (5,882,690) | (9,827,358) |
| Advance from shareholders | 67,119,267 | 189,017,364 | 86,734,038 |
| Advance from intermediate holding companies | — | 6,923,699 | — |
| Repayment to fellow subsidiaries | (44,415,502) | (105,669,198) | (103,214,274) |
| Repayment to shareholders | — | (29,000,000) | (91,544,033) |
| Repayment to intermediate holding companies | — | — | (1,523,699) |
| NET CASH FROM FINANCING ACTIVITIES | 183,159,866 | 136,734,451 | 64,790,772 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 130,900 | 750,462 | (581,317) |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | — | 130,900 | 881,362 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD, representing bank balances and cash | 130,900 | 881,362 | 300,045 |

## Notes to the Financial Information

### 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The principal activities of Fuyuan Jintai is mining and sale of raw coal. Fuyuan Jintai is owned as to 48.8% by Liupanshui Hidili Industry Co., Limited ("**Liupanshui Hidili**"), 12.2% by Sichuan Hidili Industry Co., Limited ("**Sichuan Hidili**"); and 40% by Huaneng, companies established in the PRC. The Company, a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of Fuyuan Jintai, Liupanshui Hidili, Sichuan Hidili. In the opinion of the directors of Fuyuan Jintai, the ultimate holding company of Fuyuan Jintai is Sarasin Trust Company Guernsey Limited, a company incorporated in the British Virgin Islands which is controlled by Mr. Xian Yang, the Chief Executive and Executive Director of the Company. The address of the registered office and principal place of business of Fuyuan Jintai is Zude Village, Fucun Town, Fuyuan County, Yuannan Province, PRC.

The Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of Fuyuan Jintai.

In preparing the Underlying Financial Statements, the directors of Fuyuan Jintai have taken into consideration that Fuyuan Jintai's current liabilities exceeded its current assets by RMB235,214,292 as at 31 December 2012.

The Financial Information has been prepared on a going concern basis because the Company has agreed to provide financial support to Fuyuan Jintai to meet in full its financial obligations as and when they fall due in the foreseeable future. The Company has been implementing a number of measures to improve its financial position, including but not limited to: (1) approaching banks and independent third parties in the PRC to obtain new medium to long-term facilities of not less than RMB2.5 billion; (2) negotiating with a bank to review and renew banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million; and (3) proposed disposal of 50% equity interests in certain of its subsidiaries for a total consideration of RMB2.4 billion, details of which are set out in the Company's announcement dated 24 May 2013. The directors of Fuyuan Jintai believe that the above measures can be successfully implemented and therefore the Company will have sufficient working capital to finance the operations of Fuyuan Jintai and Fuyuan Jintai can meet its financial obligations as and when they fall due for the foreseeable future.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Underlying Financial Statements, throughout the Relevant Periods, Fuyuan Jintai has consistently adopted all of the new and revised standards, amendments and interpretations which are or have been effective for Fuyuan Jintai's financial year beginning on 1 January 2012.

Fuyuan Jintai has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009–2011 Cycle[2] |
| Amendments to IFRS 7 | Disclosure — Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[4] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[3] |
| IFRS 9 | Financial Instruments[4] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| IAS 19 (Revised 2011) | Employee Benefits[2] |
| IAS 27 (Revised 2011) | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to IAS 36 | Recoverable Amount Disclosure for Non-Financial Assets[3] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |
| IFRIC 21 | Levies[3] |

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The directors of Fuyuan Jintai anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of Fuyuan Jintai.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Fuyuan Jintai has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Fuyuan Jintai retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Fuyuan Jintai; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Fuyuan Jintai and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The mining structures and mining rights are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses. Depreciation and amortisation is provided to write off the cost of mining structures and the mining rights using the units of production method over the total proven reserves of the coal mines.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at costs less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with Fuyuan Jintai's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefits costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from "profit before tax" as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Fuyuan Jintai's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Fuyuan Jintai expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provision for restoration and environmental costs**

Fuyuan Jintai is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when Fuyuan Jintai has a present obligation as a result of a past event, it is probable that Fuyuan Jintai will be required to settle the obligation. Provisions are measured at the directors of Fuyuan Jintai's best estimation of the consideration required to settle the present obligation at the end of the reporting period, and are discounted to present value where the effect is material.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when Fuyuan Jintai becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Fuyuan Jintai's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits, loan receivable, amounts due from fellow subsidiaries and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss directly for all the financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition*

Fuyuan Jintai derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by Fuyuan Jintai are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of Fuyuan Jintai after deducting all of its liabilities. Equity instruments issued by Fuyuan Jintai are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade payables, other payables, amount due to an intermediate holding company, amounts due to shareholders and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

Fuyuan Jintai derecognises financial liabilities when, and only when, Fuyuan Jintai's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment of tangible assets**

At the end of each reporting period, Fuyuan Jintai reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Fuyuan Jintai estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Fuyuan Jintai's accounting policies, which are described in note 3, the directors of Fuyuan Jintai are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

**Depreciation of property, plant and equipment**

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value. Mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines. The directors of Fuyuan Jintai assess annually the residual value and the useful life of the property, plant and equipment as well as the reserves of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. The carrying amount of property, plant and equipment was RMB218,660,951, RMB293,076,485 and RMB317,254,988 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Details of property, plant and equipment are disclosed in note 12.

As explained in note 3, mining structures and mining rights are depreciated and amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of Fuyuan Jintai's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. The carrying amount of mining structures and mining rights was RMB184,197,458, RMB185,140,556 and RMB238,767,916 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

**Estimated impairment of property, plant and equipment**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Management of Fuyuan Jintai consider that Fuyuan Jintai continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires Fuyuan Jintai to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of mining structures and mining rights was RMB184,197,458, RMB185,140,556 and RMB238,767,916, respectively.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| **Financial assets** | | | |
| Loans and receivables (including cash and cash equivalents) | 4,224,552 | 135,714,638 | 194,055,855 |
| **Financial liabilities** | | | |
| Amortised cost | 189,939,063 | 325,677,615 | 308,450,556 |

### (b) Financial risk management objectives and policies

Fuyuan Jintai's major financial instruments include other receivables and deposits, loan receivable, bank balances, trade payables, other payables and amounts due from and to related parties. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management of Fuyuan Jintai manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *(i) Market risk*

*Interest rate risk*

Fuyuan Jintai is exposed to cash flow interest rate risk in relation to variable rate bank balances and fair value interest rate risk in relation to certain balances of amounts due to shareholders which carry fixed rate (see notes 17 and 16 for details). The directors of Fuyuan Jintai consider the exposure of interest-bearing bank balances is not significant as bank balances are in short maturity period. Fuyuan Jintai currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate change exposure when the need arise. No sensitivity analysis is presented as the directors of Fuyuan Jintai consider the amount is insignificant.

#### *(ii) Credit risk*

As at the end of each reporting period, Fuyuan Jintai's maximum exposure to credit risk which will cause a financial loss to Fuyuan Jintai due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statement of financial position.

Management of Fuyuan Jintai reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of Fuyuan Jintai considers that the credit risk is significantly reduced.

Other than concentration of credit risks on group companies which management of Fuyuan Jintai reviews the financial position and repayment abilities of respective group companies, Fuyuan Jintai does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

*(iii) Liquidity risk*

In the management of the liquidity risk, Fuyuan Jintai monitors and maintains a level of cash and cash equivalents deemed adequate by management of Fuyuan Jintai to finance the its operations and mitigate the effects of fluctuations in cash flows.

Fuyuan Jintai relies on advances from group companies as a significant source of liquidity. Details of which are set out in note 16.

At 31 December 2012, Fuyuan Jintai had net current liabilities of RMB235,214,292. As the Company has agreed to provide financial support to Fuyuan Jintai to meet in full its financial obligations as they fall due in the foreseeable future, the directors of Fuyuan Jintai consider the liquidity risk of Fuyuan Jintai is insignificant.

The following tables detail Fuyuan Jintai's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Fuyuan Jintai can be required to pay.

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2010 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 305,382 | — | — | 305,382 | 305,382 |
| Other payables | — | 14,506,751 | — | — | 14,506,751 | 14,506,751 |
| Amounts due to shareholders | 4.58 | 67,119,267 | — | — | 67,119,267 | 67,119,267 |
| Amounts due to fellow subsidiaries | 6.00 | 26,658,743 | 87,384,166 | — | 114,042,909 | 108,007,663 |
| | | 108,590,143 | 87,384,166 | — | 195,974,309 | 189,939,063 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2011 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 1,104,789 | — | — | 1,104,789 | 1,104,789 |
| Other payables | — | 1,682,340 | — | — | 1,682,340 | 1,682,340 |
| Amounts due to shareholders | 3.96 | 227,136,631 | — | — | 227,136,631 | 227,136,631 |
| Amount due to an intermediate holding company | — | 6,923,699 | — | — | 6,923,699 | 6,923,699 |
| Amounts due to fellow subsidiaries | 5.99 | 89,721,007 | — | — | 89,721,007 | 88,830,156 |
| | | 326,568,466 | — | — | 326,568,466 | 325,677,615 |

| | Weighted average interest rate | On demand or within 1 year | More than 1 year and less than 2 years | More than 2 years and less than 5 years | Total undiscounted cash flows | Carrying amount at 31 December 2012 |
|---|---|---|---|---|---|---|
| | *%* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| Trade payables | — | 3,210,877 | — | — | 3,210,877 | 3,210,877 |
| Other payables | — | 5,972,913 | — | — | 5,972,913 | 5,972,913 |
| Amounts due to shareholders | 5.06 | 222,326,636 | — | — | 222,326,636 | 222,326,636 |
| Amount due to an intermediate holding company | — | 5,400,000 | — | — | 5,400,000 | 5,400,000 |
| Amounts due to fellow subsidiaries | 4.74 | 16,450,107 | — | 64,220,724 | 80,670,831 | 71,540,130 |
| | | 253,360,533 | — | 64,220,724 | 317,581,257 | 308,450,556 |

**(c) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of Fuyuan Jintai considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents sale of raw coal at invoiced value net of discounts and sales related taxes during the Relevant Periods.

The directors of Fuyuan Jintai, being the chief operating decision makers, assess the performance and allocate the resources of Fuyuan Jintai as a whole because Fuyuan Jintai is mainly engaged in mining. Therefore, the directors of Fuyuan Jintai consider that Fuyuan Jintai only has one operating segment under IFRS 8. In this regard, no segment information is presented.

**Geographical information**

The operations and assets of Fuyuan Jintai are located in the PRC.

**Information about major customers**

Revenue from sales of raw coals are substantially contributed from fellow subsidiaries of Fuyuan Jintai. Details of related party transactions are disclosed in note 23(a).

## 7. FINANCE COSTS

| | For the period from 19 January 2010 (date of establishment) to 31 December | For the year ended 31 December | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Interest expenses on borrowings wholly repayable within five years: | | | |
| — amount due to a shareholder | 3,002,330 | 5,882,690 | 9,827,358 |
| Imputed interest expense on amounts due to fellow subsidiaries | 4,053,982 | 5,146,415 | 2,552,895 |
| Less: Interest capitalised in construction in progress | — | (1,145,607) | (1,490,582) |
| | 7,056,312 | 9,883,498 | 10,889,671 |

## 8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as Fuyuan Jintai's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of Fuyuan Jintai is 25% during the Relevant Periods.

The taxation during the Relevant Periods can be reconciled to the profit before tax per statements of comprehensive income as follows:

| | For the period from 19 January 2010 (date of establishment) to 31 December | For the year ended 31 December | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Profit before tax | 22,136,283 | 72,453,862 | 5,594,757 |
| Tax at applicable tax rate of 25% | 5,534,071 | 18,113,466 | 1,398,689 |
| Tax effect of expenses not deductible for tax purpose | 1,068,657 | 1,303,927 | 638,224 |
| Tax effect of income not taxable for tax purpose | — | (966,619) | (2,024,496) |
| Others | — | 1,156,267 | 1,850,194 |
| Income tax expenses for the period/year | 6,602,728 | 19,607,041 | 1,862,611 |

## 9. PROFIT FOR THE PERIOD/YEAR

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 *RMB* | For the year ended 31 December 2011 *RMB* | 2012 *RMB* |
|---|---|---|---|
| Profit for the period/year has been arrived at after charging (crediting): | | | |
| Cost of inventories recognised as expense | 12,229,357 | 21,676,572 | 21,824,230 |
| Depreciation and amortisation of property, plant and equipment | 866,070 | 2,209,385 | 1,886,324 |
| Provision for restoration costs *(note 21)* | 54,476 | 54,210 | 29,550 |
| Salaries and other benefits | 5,420,039 | 12,091,926 | 10,197,962 |
| Retirement benefit costs | 24,003 | 78,695 | 280,058 |
| Total staff costs | 5,444,042 | 12,170,621 | 10,478,020 |
| Bank interest income | (4,400) | (4,530) | (13,741) |
| Imputed interest income on amounts due from fellow subsidiaries | — | (3,866,475) | (8,097,982) |

## 10. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

**Directors' emoluments**

During the Relevant Periods, no fees or other emoluments was paid or payable by Fuyuan Jintai to its directors.

During the Relevant Periods, no remuneration was paid by Fuyuan Jintai to its directors as an inducement to join or upon joining Fuyuan Jintai or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

**Employees' emoluments**

The five highest paid individuals for the Relevant Periods were as follows:

| | For the period from 19 January 2010 (date of establishment) to 31 December 2010 *RMB* | For the year ended 31 December 2011 *RMB* | 2012 *RMB* |
|---|---|---|---|
| Salaries and other allowances | 566,453 | 714,773 | 604,420 |
| Contributions to retirement benefit schemes | 2,885 | 10,291 | 2,885 |
| | 569,338 | 725,064 | 607,305 |

Each of their emoluments were within HK$1,000,000 (approximately RMB800,000).

During the Relevant Periods, no emolument was paid or payable by Fuyuan Jintai to the five highest paid individuals as an inducement to join Fuyuan Jintai as compensation for loss of office.

## 11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | **Buildings** | **Mining structures and mining rights** | **Machinery** | **Office and electronic equipment** | **Construction in progress** | **Total** |
|---|---|---|---|---|---|---|
| | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* | *RMB* |
| COST | | | | | | |
| At 19 January 2010 (date of establishment) | — | — | — | — | — | — |
| Additions | 1,234,031 | 184,907,044 | 3,153,638 | 60,439 | 30,171,869 | 219,527,021 |
| At 31 December 2010 | 1,234,031 | 184,907,044 | 3,153,638 | 60,439 | 30,171,869 | 219,527,021 |
| Additions | — | 2,753,999 | 1,969,594 | 169,347 | 71,731,979 | 76,624,919 |
| At 31 December 2011 | 1,234,031 | 187,661,043 | 5,123,232 | 229,786 | 101,903,848 | 296,151,940 |
| Additions | — | 17,756,001 | 1,896,763 | — | 6,412,063 | 26,064,827 |
| Transfer | 66,166 | 37,082,997 | 35,886 | — | (37,185,049) | — |
| At 31 December 2012 | 1,300,197 | 242,500,041 | 7,055,881 | 229,786 | 71,130,862 | 322,216,767 |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 19 January 2010 (date of establishment) | — | — | — | — | — | — |
| Provided for the period | 30,200 | 709,586 | 123,727 | 2,557 | — | 866,070 |
| At 31 December 2010 | 30,200 | 709,586 | 123,727 | 2,557 | — | 866,070 |
| Provided for the year | 39,750 | 1,810,901 | 340,471 | 18,263 | — | 2,209,385 |
| At 31 December 2011 | 69,950 | 2,520,487 | 464,198 | 20,820 | — | 3,075,455 |
| Provided for the year | 40,582 | 1,211,638 | 613,092 | 21,012 | — | 1,886,324 |
| At 31 December 2012 | 110,532 | 3,732,125 | 1,077,290 | 41,832 | — | 4,961,779 |
| CARRYING AMOUNTS | | | | | | |
| At 31 December 2010 | 1,203,831 | 184,197,458 | 3,029,911 | 57,882 | 30,171,869 | 218,660,951 |
| At 31 December 2011 | 1,164,081 | 185,140,556 | 4,659,034 | 208,966 | 101,903,848 | 293,076,485 |
| At 31 December 2012 | 1,189,665 | 238,767,916 | 5,978,591 | 187,954 | 71,130,862 | 317,254,988 |

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

| | |
|---|---|
| Buildings | 15 to 35 years |
| Machinery | 5 to 15 years |
| Office and electronic equipment | 5 to 10 years |

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 3 years but in the opinion of the directors of Fuyuan Jintai, Fuyuan Jintai will be able to renew the mining rights without incurring significant costs.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method based on the total proven reserves of the coal mine.

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

The legal titles of the mining rights have been granted by the relevant government authorities as at 31 December 2010, 31 December 2011 and 31 December 2012.

During the year ended 31 December 2012, the operation in mines of Fuyuan Jintai have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB71,130,862 and RMB246,124,126, respectively.

For the purpose of the impairment testing of mining structure and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management of Fuyuan Jintai considers that Fuyuan Jintai will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors of Fuyuan Jintai for the next five years, taking into account the best estimates of management of Fuyuan Jintai concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management of Fuyuan Jintai. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of Fuyuan Jintai has determined that there is no impairment of the mining structure and mining rights.

## 13. LOAN RECEIVABLE

At 31 December 2010, amount represented the loan advanced to an entity which was registered and operating in the PRC. The loan carried interest at 8% per annum and would be repayable in 2012. The amount was included in other receivables under current assets at 31 December 2011 and fully paid during the year ended 31 December 2012.

The directors of Fuyuan Jintai are of the opinion that the above entity was independent and not related to Fuyuan Jintai.

## 14. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| Coal products | 159,404 | 125,967 | 42,095 |
| Auxiliary materials and spare parts | 3,311,116 | 2,345,927 | 796,309 |
| | 3,470,520 | 2,471,894 | 838,404 |

## 15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2012, included in other receivables, deposits and prepayments in an amount of RMB810,000 prepayment for advisory service to Huaneng, a shareholder of Fuyuan Jintai.

## 16. AMOUNTS DUE FROM AND TO GROUP COMPANIES

At 31 December 2010, 31 December 2011 and 31 December 2012, except for amounts due from fellow subsidiaries of nil, RMB128,004,042 and RMB136,102,024, respectively, which will be recovered in three year time from initial recognition, amounts due from group companies are expected to be recovered in one year. The effective interest of amounts due from fellow subsidiaries expected to be recovered in three year time is 6.15% per annum. All amounts due from group companies are interest free and unsecured.

Except for amounts due to fellow subsidiaries at 31 December 2010, 31 December 2011 and 31 December 2012 of RMB81,348,900, RMB86,495,315 and RMB55,090,023, respectively, which will be settled in two to three year time from initial recognition, other amounts due to related parties will be settled in one year. In addition, except for amount due to a shareholder of RMB48,290,330, RMB141,967,226 and RMB208,404,346, at 31 December 2010, 31 December 2011 and 31 December 2012, respectively, is interest bearing at 6.372%, 6.336% and 5.4%, respectively, which all amounts due to related parties are interest free. All amounts due to related parties are unsecured. The effective interest of amounts due to fellow subsidiaries expected to be recovered in two to three year time is 6.15% per annum.

There is no credit terms and policies on the trading balances with group companies.

## 17. BANK BALANCES AND CASH

Bank balances as at 31 December 2010, 31 December 2011 and 31 December 2012 carry interests at market rates range from 0.35% to 0.5% per annum.

## 18. TRADE PAYABLES

The aged analysis of Fuyuan Jintai's trade payables based on invoice date at the end of the reporting period is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | *RMB* | *RMB* | *RMB* |
| 0–90 days | 207,654 | 822,819 | 1,465,520 |
| 91–180 days | 97,728 | 214,159 | 1,308,731 |
| 181–365 days | — | 67,811 | 436,626 |
| Over 365 days | — | — | — |
| | 305,382 | 1,104,789 | 3,210,877 |

The average credit period on purchases of goods is 90 days.

## 19. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December 2010, 31 December 2011 and 31 December 2012, included in other payables and accrued expense is payable for acquisition of property, plant and equipment of RMB8,460,000, RMB1,640,000 and RMB17,676,330; and other tax payables of RMB6,522,415, RMB22,432,645 and RMB4,626,349, respectively.

## 20. PAID IN CAPITAL

| | *RMB* |
|---|---|
| Registered and fully paid at 19 January 2010 (date of establishment), 31 December 2010 and 2011 | 5,000,000 |
| Capital injection | 3,196,700 |
| Registered and fully paid at 31 December 2012 | 8,196,700 |

Fuyuan Jintai was established with registered capital of RMB5,000,000 on 19 January 2010. The registered capital was fully paid at the date of establishment. On 28 August 2012, the total registered capital of Fuyuan Jintai increased from RMB5,000,000 to RMB8,196,700 and Huaneng paid an additional contribution of RMB90,000,000 in September 2012, of which RMB3,196,700 as paid in capital and RMB86,803,300 as capital reserve.

## 21. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | *RMB* |
|---|---|
| At 19 January 2010 (date of establishment) | — |
| Provision for the period | 54,476 |
| At 31 December 2010 | 54,476 |
| Provision for the year | 54,210 |
| At 31 December 2011 | 108,686 |
| Provision for the year | 29,550 |
| At 31 December 2012 | 138,236 |

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, Fuyuan Jintai is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

## 22. CAPITAL RISK MANAGEMENT

Fuyuan Jintai manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Fuyuan Jintai remains unchanged throughout the Relevant Periods.

The capital structure of Fuyuan Jintai consists of debts, which include amounts due to group companies as disclosed in note 16, net of cash and cash equivalents and equity attributable to owners of Fuyuan Jintai, comprising paid in capital, reserves and retained profits.

The directors of Fuyuan Jintai review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Fuyuan Jintai will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

### 23. RELATED PARTY TRANSACTIONS

During the Relevant Periods, Fuyuan Jintai entered into the following transactions with related parties:

**(a) Transactions**

| | **2010** | **2011** | **2012** |
|---|---|---|---|
| | *RMB* | *RMB* | *RMB* |
| Fellow subsidiaries: | | | |
| Purchases | — | — | 1,253,549 |
| Sales | 43,578,458 | 98,454,282 | 36,924,038 |
| A shareholder: | | | |
| Purchases | 12,051,171 | 7,801,871 | — |
| Interest expense | 3,002,330 | 5,882,690 | 9,827,358 |
| Advisory fee paid and payable | — | — | 270,000 |

**(b)** Details of the balances with related parties are set out in the statements of financial position and notes 15 and 16.

### 24. CAPITAL COMMITMENTS

| | **As at 31 December** | | |
|---|---|---|---|
| | **2010** | **2011** | **2012** |
| | *RMB* | *RMB* | *RMB* |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | 4,685,300 | 4,929,813 | 3,072,013 |

## B. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the production of Fuyuan Jintai's mine was resumed.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Fuyuan Jintai have been prepared in respect of any period subsequent to 31 December 2012.

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

The following is the management discussion and analysis of the Target Subsidiaries for each of the financial year ended 31 December 2010, 2011 and 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2012

### Financial Review

*A. Panzhihua Yanjiang*

Revenue of Panzhihua Yanjiang was mainly generated from the sales of raw coal to immediate holding company and fellow subsidiaries. Revenue for the year ended 31 December 2012 amounted to approximately RMB103.8 million, representing a decrease of approximately RMB159.0 million or 60.5%, as compared to approximately RMB262.8 million for the year ended 31 December 2011. The decrease was mainly attributable to (i) decrease in sales volume of raw coal from approximately 578,000 tonnes for the corresponding period in 2011 to approximately 295,000 tonnes for the year; and (ii) decrease in average selling price of raw coal from approximately RMB434.3 per tonne for the corresponding period in 2011 to approximately RMB338.1 per tonne for the year.

Cost of sales of Panzhihua Yanjiang mainly represented production costs in relation to the raw coal production in Tianbao Coal Mine, Sichuan province. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB34.8 million, representing a decrease of approximately RMB42.6 million or 55.1%, as compared to approximately RMB77.4 million for the year ended 31 December 2011. The decrease was mainly resulted from the decrease in production volume of raw coal from approximately 588,000 tonnes for the corresponding period in 2011 to approximately 285,000 tonnes for the year.

Other income of Panzhihua Yanjiang mainly consisted of bank interest income and imputed interest income on amount due from immediate holding company and fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB31.2 million, representing an increase of approximately RMB2.8 million, as compared to approximately RMB28.4 million for the year ended 31 December 2011. The increase was due to the increase in imputed interest income on amount due from immediate holding company and fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses of Panzhihua Yanjiang mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB19.1 million, representing an increase of approximately RMB10.9 million, as compared with approximately RMB8.2 million for the year ended 31 December 2011. The increase was mainly resulted from (i) an increase of approximately RMB5.7 million in staff costs for the year; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB3.4 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Panzhihua Yanjiang represented interest expenses on advance drawn on bills receivable discounted without recourse. Finance costs for the year ended 31 December 2012 amounted to approximately RMB15.5 million, representing an increase of approximately RMB2.5 million, as compared with approximately RMB13.0 million for the year ended 31 December 2011. The increase was attributable to the increase in interest expenses in relation to the amount of bills receivable being discounted during the year.

Income tax expenses of Panzhihua Yanjiang represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB9.0 million for the year ended 31 December 2012, representing decrease of approximately RMB11.7 million, as compared to approximately RMB20.7 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was 13.8% as compared to 10.8% for the year ended 31 December 2011. The increase was mainly attributable to the (i) tax effect of income not taxable in relation to the imputted interest income on amount due from immediate holding company and fellow subsidiaries and (ii) the tax effect of concessionary tax rate granted.

As a result of the foregoing, the profit for the year ended 31 December 2012 amounted to approximately RMB56.5 million, representing a decrease of approximately RMB115.5 million or 67.1% as compared to approximately RMB172.0 million for the year ended 31 December 2011. The net profit margin was approximately 54.4% for the year as compared to 65.4% in corresponding period in 2011.

*B. Yunnan Hidili*

Revenue of Yunnan Hidili was mainly generated from the production and sales of clean coal and its by-products. Revenue for the year ended 31 December 2012 amounted to approximately RMB370.7 million, representing a decrease of approximately RMB65.0 million or 14.9%, as compared to approximately RMB435.7 million for the year ended 31 December 2011. The decrease was mainly attributable to (i) decrease in sales volume of clean coal from approximately 356,000 tonnes for the corresponding period in 2011 to approximately 323,000 tonnes for the year; and (ii) decrease in average selling price of clean coal from approximately RMB1,124.2 per tonne for the corresponding period in 2011 to approximately RMB1,036.2 per tonne for the year.

Cost of sales of Yunnan Hidili mainly incorporated production costs in relation to the raw coal production in Yanhe Coal Mine and Hexing Coal Mine, Yunnan province and the corresponding clean coal processing costs. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB307.6 million, representing a decrease of approximately RMB61.8 million or 16.7%, as compared to approximately RMB369.4 million for the year ended 31 December 2011. The decrease was mainly resulted from the decrease in production volume of raw coal from approximately 209,000 tonnes for the corresponding period in 2011 to approximately 116,000 tonnes for the year but partly offset by the purchase costs of raw coal from fellow subsidiaries and outside suppliers for clean coal processing during the year.

Other income of Yunnan Hidili mainly consisted of bank interest income and imputed interest income on amount due from immediate holding company and fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB29.4 million, maintaining at similar level, as compared to approximately RMB29.5 million for the year ended 31 December 2011.

Administrative expenses of Yunnan Hidili mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB37.2 million, representing an increase of approximately RMB14.7 million, as compared with approximately RMB22.5 million for the year ended 31 December 2011. The increase was mainly resulted from (i) an increase of approximately RMB8.6 million in bank charges for arrangement bank facilities; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB2.4 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Yunnan Hidili represented interest expenses on bank borrowings, amount due to immediate holding company, intermediate holding companies and fellow subsidiaries. Finance costs for the year ended 31 December 2012 amounted to approximately RMB34.5 million, representing an increase of approximately RMB10.2 million, as compared with approximately RMB24.3 million for the year ended 31 December 2011. The increase was attributable to the increase of approximately RMB18.1 million in interest expenses on amount due to immediate holding company intermediate holding companies and fellow subsidiaries of which approximately RMB8.1 million was capitalised.

Income tax expenses of Yunnan Hidili represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB1.3 million for the year ended 31 December 2012, representing decrease of approximately RMB13.6 million, as compared to approximately RMB14.9 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was 6.3%, as compared with 30.3% for the year ended 31 December 2011. The decrease was mainly attributable to (i) the tax effect of expenses not deductible for tax purpose in relation of the interest expense on amount due to immediate holding company, intermediate holding companies and fellow subsidiaries; (ii) the tax effect of income not taxable in relation to the imputted interest income on amount due from fellow subsidiaries and intermediate holding company; and (iii) the utilization of tax losses previously not recognised.

As a result of the foregoing, the profit for the year ended 31 December 2012 amounted to approximately RMB18.7 million, representing a decrease of approximately RMB15.4 million or 45.3% as compared to approximately RMB34.1 million for the year ended 31 December 2011. The net profit margin was approximately 5.0% for the year as compared to 7.8% in corresponding period in 2011.

*C. Fuyuan Kunyuan*

Revenue of Fuyuan Kunyuan was mainly generated from the sales of raw coal to fellow subsidiaries. Revenue for the year ended 31 December 2012 amounted to approximately RMB16.8 million, representing a decrease of approximately RMB11.0 million or 39.5%, as compared to approximately RMB27.8 million for the year ended 31 December 2011. The decrease was mainly attributable to the decrease in sales volume of raw coal from approximately 69,000 tonnes for the corresponding period in 2011 to approximately 30,000 tonnes for the year but partly offset by the increase in average selling price of raw coal from approximately RMB406.4 per tonne for the corresponding period in 2011 to approximately RMB553.3 per tonne for the year.

Cost of sales of Fuyuan Kunyuan mainly represented production costs in relation to the raw coal production in Jianglang Coal Mine, Yunnan province. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB13.6 million, representing an increase of approximately RMB4.4 million or 47.3%, as compared to approximately RMB9.2 million for the year ended 31 December 2011. The increase was mainly resulted from the increase in raw materials usage of approximately RMB3.8 million in relation to the maintenance costs of the coal mine although the production volume of raw coal dropped from approximately 74,000 tonnes for the corresponding period in 2011 to 51,000 tonnes for the year.

Other income of Fuyuan Kunyuan mainly consisted of bank interest income. Other income for the year ended 31 December 2012 amounted to approximately RMB41,900, representing an increase of approximately RMB37,300, as compared to approximately RMB4,600 for the year ended 31 December 2011. The increase was due to the increase in bank interest income of approximately RMB26,800 during the year.

Administrative expenses of Fuyuan Kunyuan mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB5.5 million, representing an increase of approximately RMB2.8 million, as compared with approximately RMB2.7 million for the year ended 31 December 2011. The increase was mainly resulted from (i) an increase of approximately RMB0.9 million in insurance expenses; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB2.0 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Fuyuan Kunyuan represented imputed interest expenses on amount due to an immediate holding company less interest capitalized in construction in progress. Finance costs for the year ended 31 December 2012 amounted to approximately RMB7.0 million, representing an increase of approximately RMB5.1 million, as compared with approximately RMB1.9 million for the year ended 31 December 2011. The increase was attributable to the increase in imputed interest expenses on amount due to an immediate holding company since the average outstanding amount increased during the year.

Income tax expenses of Fuyuan Kunyuan represented PRC enterprise income tax payable. Income tax expenses amounted to nil for the year ended 31 December 2012 as Fuyuan Kunyuan suffered loss for the year.

As a result of the foregoing, the loss for the year ended 31 December 2012 amounted to approximately RMB9.2 million, representing a decrease of approximately RMB23.1 million or 166.5% as compared to profit of approximately RMB13.9 million for the year ended 31 December 2011.

*D. Fuyuan Xiangda*

Revenue of Fuyuan Xiangda was mainly generated from the production and sales of clean coal and its by-products. Revenue for the year ended 31 December 2012 amounted to approximately RMB48.8 million, representing a decrease of approximately RMB15.5 million or 24.0%, as compared to approximately RMB64.3 million for the year ended 31 December 2011. The decrease was mainly attributable to the decrease in sales volume of clean coal from approximately 51,000 tonnes for the corresponding period in 2011 to approximately 38,000 tonnes for the year but partly offset by the increase in average selling price of clean coal from approximately RMB984.2 per tonne for corresponding period of 2011 to approximately RMB1,021.5 per tonne for the year.

Cost of sales of Fuyuan Xiangda mainly represented production costs in relation to the raw coal production in Xiangda No. 1 Coal Mine, Yunnan province and the corresponding clean coal processing costs. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB21.4 million, representing a decrease of approximately RMB1.6 million or 7.1%, as compared to approximately RMB23.0 million for the year ended 31 December 2011. The decrease was mainly resulted from the decrease in production volume of raw coal from approximately 151,000 tonnes for the corresponding period in 2011 to approximately 137,000 tonnes for the year. However, the decrease in production cost was offset by (i) an increase in power cost of approximately RMB2.0 million; and (ii) an increase in depreciation and amortization of approximately RMB3.4 million.

Other income of Fuyuan Xiangda mainly consisted of bank interest income and imputed interest income on amount due from fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB3.1 million, representing an increase of approximately RMB2.9 million, as compared to approximately RMB0.1 million for the year ended 31 December 2011. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses of Fuyuan Xiangda mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB8.3 million, representing a decrease of approximately RMB0.3 million, as compared with approximately RMB8.6 million for the year ended 31 December 2011. The decrease was mainly resulted from a decrease of approximately RMB2.2 million in depreciation and amortization expenses but offset by (i) increase in other taxes of approximately RMB0.8 million; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB1.0 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Fuyuan Xiangda represented interest expenses on amount due to an intermediate holding company and fellow subsidiaries less interest capitalized in construction in progress. Finance costs for the year ended 31 December 2012 amounted to approximately RMB12.9 million, representing an increase of approximately RMB8.1 million, as compared with approximately RMB4.8 million for the year ended 31 December 2011. The increase was attributable to the increase in interest expenses on amount due to an intermediate holding company and fellow subsidiaries of approximate RMB9.9 million but offset by the increase in interest capitalized of approximately RMB1.8 million during the year.

Income tax expenses of Fuyuan Xiangda represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB4.9 million for the year ended 31 December 2012, representing decrease of approximately RMB3.9 million, as compared to approximately RMB8.8 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was 52.4% as compared with 31.6% for the year ended 31 December 2011. The increase was mainly attributable to (i) tax effect of expenses not deductible for tax purpose in relation to interest expenses on amounts due to an intermediate holding company and fellow subsidiaries; and (ii) tax effect of income not taxable in relation to the imputed interest income on amounts due from fellow subsidiaries.

As a result of the foregoing, the profit for the year ended 31 December 2012 amounted to approximately RMB4.5 million, representing a decrease of approximately RMB14.6 million or 76.6% as compared to approximately RMB19.1 million for the year ended 31 December 2011. The net profit margin was approximately 9.1% for the year as compared to 29.7% in corresponding period in 2011.

*E. Yunnan Henglong*

Revenue of Yunnan Henglong was mainly generated from the sales of raw coal to fellow subsidiaries. Revenue for the year ended 31 December 2012 amounted to approximately RMB34.3 million, representing a slight decrease of approximately RMB1.0 million or 3.0%, as compared to approximately RMB35.3 million for the year ended 31 December 2011. The decrease was mainly attributable to the decrease in sales volume of raw coal from approximately 88,000 tonnes for the corresponding period in 2011 to approximately 52,000 tonnes for the year but partly offset by the increase in average selling price of raw coal from approximately RMB402.4 per tonne for the corresponding period in 2011 to approximately RMB654.9 per tonne for the year.

Cost of sales of Yunnan Henglong mainly represented production costs in relation to the raw coal production in Zude Coal Mine, Yunnan province. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB18.3 million, representing an increase of approximately RMB4.8 million or 35.2%, as compared to approximately RMB13.5 million for the year ended 31 December 2011. The increase was mainly resulted from the increase in production volume of raw coal from approximately 75,000 tonnes for the corresponding period in 2011 to approximately 92,000 tonnes for the year.

Other income of Yunnan Henglong mainly consisted of interest income from loan receivable and imputed interest income on amount due from fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB8.6 million, representing an increase of approximately RMB4.1 million, as compared to approximately RMB4.5 million for the year ended 31 December 2011. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses of Yunnan Henglong mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB8.5 million, representing an increase of approximately RMB5.4 million, as compared with approximately RMB3.1 million for the year ended 31 December 2011. The increase was mainly resulted from (i) an increase of approximately RMB3.3 million in staff costs for the year; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB1.2 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Yunnan Henglong represented imputed interest expenses on amount due to a shareholder and fellow subsidiaries less interest capitalized in construction in progress. Finance costs for the year ended 31 December 2012 amounted to approximately RMB29.4 million, representing an increase of approximately RMB11.0 million, as compared with approximately RMB18.4 million for the year ended 31 December 2011. The increase was attributable to the increase in imputed interest expenses on amount due to a shareholder and fellow subsidiaries of approximate RMB13.2 million but offset by the increase in interest capitalized of approximately RMB2.3 million during the year.

Income tax expenses of Yunnan Henglong represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB2.4 million for the year ended 31 December 2012, representing decrease of approximately RMB2.8 million, as compared to approximately RMB5.2 million for the year ended 31 December 2011. Although Yunnan Henglong suffered loss before taxation of approximately RMB13.3 million for the year, the effective tax rate for the year ended 31 December 2012 was estimated at 25.2% after adjusted for (i) the imputed interest income on amount due from fellow subsidiaries of approximately RMB6.8 million which was considered to be not taxable, and (ii) the finance costs in related to interest payable to a shareholder and fellow subsidiaries but deducted interest capitalized in construction in progress of approximately RMB29.4 million which were considered to be not deductible for tax purpose.

As a result of the foregoing, the loss for the year ended 31 December 2012 amounted to approximately RMB15.6 million, representing a decrease of approximately RMB15.2 million or 4,111.5% as compared to loss of approximately RMB0.4 million for the year ended 31 December 2011.

*F. Fuyuan Dahe*

Revenue of Fuyuan Dahe was mainly generated from the sales of raw coal to fellow subsidiaries. Revenue for the year ended 31 December 2012 amounted to approximately RMB96.6 million, representing a decrease of approximately RMB53.5 million or 35.6%, as compared to approximately RMB150.1 million for the year ended 31 December 2011. The decrease was mainly attributable to (i) decrease in sales volume of raw coal from approximately 313,000 tonnes for the corresponding period in 2011 to approximately 212,000 tonnes for the year; and (ii) decrease in average selling price of raw coal from approximately RMB479.6 per tonne for the corresponding period in 2011 to approximately RMB453.0 per tonne for the year.

Cost of sales of Fuyuan Dahe mainly represented production costs in relation to the raw coal production in Qingping Coal Mine, Yunnan province. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB37.0 million, representing an increase of approximately RMB0.7 million or 1.9%, as compared to approximately RMB36.3 million for the year ended 31 December 2011. The increase was mainly resulted from the increase in purchase costs of raw coal from outside suppliers but partly offset by the decrease in production volume of raw coal from approximately 169,000 tonnes for the corresponding period in 2011 to approximately 132,000 tonnes for the year.

Other income of Fuyuan Dahe mainly consisted of bank interest income and imputed interest income on amount due from fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB8.2 million, representing an increase of approximately RMB5.3 million, as compared to approximately RMB2.9 million for the year ended 31 December 2011. The increase was mainly due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses of Fuyuan Dahe mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB10.3 million, maintaining as similar level, as compared with approximately RMB9.8 million for the year ended 31 December 2011. During the year, an increase in advisory fee and legal and professional expenses of approximately RMB1.5 million in relation to the Capital Injection of Huaneng Trust was offset by the decrease in donation of RMB2 million incurred in 2011.

Finance costs of Fuyuan Dahe represented interest expenses on amount due to intermediate holding company less interest capitalized in construction in progress. Finance costs for the year ended 31 December 2012 amounted to approximately RMB0.2 million, representing an increase of 100%, as compared with nil for the year ended 31 December 2011. The increase was attributable to the increase in interest expenses on amount due to an intermediate holding company but partly offset by the increase in interest capitalized during the year.

Income tax expenses of Fuyuan Dahe represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB12.5 million for the year ended 31 December 2012, representing decrease of approximately RMB13.6 million, as compared to approximately RMB26.1 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was 21.8% as compared to 24.5% for the year ended 31 December 2011. The decrease was mainly attributable to (i) tax effect of expenses not deductible for tax purpose in relation to the interest expense in amount due to an intermediate holding company; and (ii) tax effect of income not taxable in relation to the imputted interest income on amount due to fellow subsidiaries.

As a result of the foregoing, the profit for the year ended 31 December 2012 amounted to approximately RMB44.8 million, representing a decrease of approximately RMB35.9 million or 44.4% as compared to approximately RMB80.7 million for the year ended 31 December 2011. The net profit margin was approximately 46.4% for the year as compared to 53.8% in corresponding period in 2011.

*G. Fuyuan Tonghe*

Revenue of Fuyuan Tonghe was mainly generated from the sales of raw coal to fellow subsidiaries. Revenue for the year ended 31 December 2012 amounted to approximately RMB43.2 million, representing a decrease of approximately RMB12.8 million or 22.8%, as compared to approximately RMB56.0 million for the year ended 31 December 2011. The decrease was mainly attributable to decrease in average selling price of raw coal from approximately RMB473.7 per tonne for the corresponding period in 2011 to approximately RMB317.0 per tonne for the year but partly offset by the increase in sales volume of raw coal from approximately 118,000 tonnes for the corresponding period in 2011 to approximately 136,000 tonnes for the year.

Cost of sales of Fuyuan Tonghe mainly represented production costs in relation to the raw coal production in Xingjian Coal Mine, Yunnan province. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB20.8 million, representing a decrease of approximately RMB4.6 million or 18.2%, as compared to approximately RMB25.4 million for the year ended 31 December 2011. The decrease was mainly resulted from the decrease in production volume of raw coal from approximately 147,000 tonnes for the corresponding period in 2011 to approximately 117,000 tonnes for the year.

Other income of Fuyuan Tonghe mainly consisted of interest income from bank deposits and imputed interest income on amount due from fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB6.5 million, representing an increase of approximately RMB4.0 million, as compared to approximately RMB2.5 million for the year ended 31 December 2011. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses of Fuyuan Tonghe mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB9.2 million, representing an increase of approximately RMB3.7 million, as compared with approximately RMB5.5 million for the year ended 31 December 2011. The increase was mainly resulted from (i) an increase of approximately RMB1.9 million in donation for the year; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB1.2 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Fuyuan Tonghe represented imputed interest expenses on amount due to an intermediate holding company less interest capitalized in construction in progress. Finance costs for the year ended 31 December 2012 amounted to approximately RMB11.0 million, representing an increase of approximately RMB4.7 million, as compared with approximately

RMB6.3 million for the year ended 31 December 2011. The increase was attributable to the increase in imputed interest expenses on amount due to an intermediate holding company of approximate RMB7.2 million but offset by the increase in interest capitalized of approximately RMB2.5 million during the year.

Income tax expenses of Fuyuan Tonghe represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB3.3 million for the year ended 31 December 2012, representing increase of approximately RMB3.0 million, as compared to approximately RMB0.3 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was 38.2% as compared to 1.5% for the year ended 31 December 2011. The increase was mainly attributable to the tax effect of expenses not deductible for tax purpose in relation to the interest expense on amount due to an intermediate holding company.

As a result of the foregoing, the profit for the year ended 31 December 2012 amounted to approximately RMB5.4 million, representing a decrease of approximately RMB15.6 million or 74.4% as compared to approximately RMB21.0 million for the year ended 31 December 2011. The net profit margin was approximately 12.4% for the year as compared to 37.5% in corresponding period in 2011.

*H. Fuyuan Jintai*

Revenue of Fuyuan Jintai was mainly generated from the sales of raw coal to fellow subsidiaries. Revenue for the year ended 31 December 2012 amounted to approximately RMB36.9 million, representing a decrease of approximately RMB65.6 million or 64.0%, as compared to approximately RMB102.5 million for the year ended 31 December 2011. The decrease was mainly attributable to the decrease in sales volume of raw coal from approximately 283,000 tonnes for the corresponding period in 2011 to approximately 100,000 tonnes for the year but partly offset by the increase in average selling price of raw coal from approximately RMB361.9 per tonne for the corresponding period in 2011 to approximately RMB368.3 per tonne for the year.

Cost of sales of Fuyuan Jintai mainly represented production costs in relation to the raw coal production in Xingji Coal Mine, Yunnan province. Cost of sales for the year ended 31 December 2012 amounted to approximately RMB21.8 million, maintaining at similar level, as compared to approximately RMB21.7 million for the year ended 31 December 2011. During the year, an increase in government levies of approximately RMB6.9 million was absorbed by Fuyuan Jintai. However, such costs were partly offset by the decrease in production volume of raw coal from approximately 210,000 tonnes for the corresponding period in 2011 to approximately 115,000 tonnes for the year.

Other income of Fuyuan Jintai mainly consisted of bank interest income and imputed interest income on amount due from fellow subsidiaries. Other income for the year ended 31 December 2012 amounted to approximately RMB8.3 million, representing an increase of approximately RMB4.2 million, as compared to approximately RMB4.1 million for the year ended 31 December 2011. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses of Fuyuan Jintai mainly comprised of staff costs, legal and professional expenses and bank charges. Administrative expenses for the year ended 31 December 2012 amounted to approximately RMB6.9 million, representing an increase of approximately RMB4.4 million, as compared with approximately RMB2.5 million for the year ended 31 December 2011. The increase was mainly resulted from (i) an increase of approximately RMB2.4 million in staff costs for the year; and (ii) an increase in advisory fee and legal and professional expenses of approximately RMB1.2 million in relation to the Capital Injection of Huaneng Trust during the year.

Finance costs of Fuyuan Jintai represented imputed interest expenses on amount due to a shareholder and fellow subsidiaries less interest capitalized in construction in progress. Finance costs for the year ended 31 December 2012 amounted to approximately RMB10.9 million, maintaining at similar level, as compared with approximately RMB9.9 million for the year ended 31 December 2011.

Income tax expenses of Fuyuan Jintai represented PRC enterprise income tax payable. Income tax expenses amounted to approximately RMB1.9 million for the year ended 31 December 2012, representing decrease of approximately RMB17.7 million, as compared to approximately RMB19.6 million for the year ended 31 December 2011. The effective tax rate for the year ended 31 December 2012 was 33.3% as compared to 27.1% for the year ended 31 December 2011. The increase was mainly attributable to the tax effect of income not taxable for tax purpose in relation to the imputted interest income on amount due to fellow subsidiaries.

As a result of the foregoing, the profit for the year ended 31 December 2012 amounted to approximately RMB3.7 million, representing a decrease of approximately RMB49.1 million or 92.9% as compared to approximately RMB52.8 million for the year ended 31 December 2011. The net profit margin was approximately 10.1% for the year as compared to 51.6% in corresponding period in 2011.

**Liquidity, Financial Resources and Capital Structure**

The Target Subsidiaries mainly financed their respective mining and coal washing activities and capital expenditures through advances from fellow subsidiaries, immediate holding company and intermediate holding companies.

As at 31 December 2012, the combined bank balances and cash of the Target Subsidiaries amounted to approximately RMB65.6 million (2011: RMB46.7 million).

The Target Subsidiaries had no bank borrowings as at 31 December 2012. The combined amounts due to fellow subsidiaries, immediate holding company and intermediate holding companies amounted to approximately RMB1,713.7 million, RMB15.2 million and

RMB1,018.5 million respectively (2011: RMB1,896.0 million, RMB16.5 million and RMB1,281.0 million respectively), of which RMB1,519.3 million (2011: RMB2,200.4 million) was repayable within one year. Interest was charged at a range of 6.15% to 8.275% per annum.

The gearing ratio (calculate as the aggregate of bank borrowings, amounts due to fellow subsidiaries, immediate holding company and intermediate holding companies divided by total assets) of the Target Subsidiaries as at 31 December 2012 was 38.9% (2011: 54.1%).

**Pledge of Assets**

As at 31 December 2012, the Target Subsidiaries did not have any charge on their assets.

**Employees**

As at 31 December 2012, the Target Subsidiaries maintained an aggregate of approximately 3,850 employees as compared with approximately 4,580 employees at 31 December 2011.

During the year ended 31 December 2012, the aggregate staff cost of the Target Subsidiaries was approximately RMB102.6 million, representing a slight decrease of approximately RMB6.1 million, as compared to approximately RMB108.7 million for the year ended 31 December 2011.

The salary and bonus policy of the Target Subsidiaries is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

**Risk in Foreign Exchange**

Since all of the Target Subsidiaries' business activities are transacted in RMB, the Directors consider that the Target Subsidiaries' risk in foreign exchange is insignificant.

**Significant Investment Held**

During the year ended 31 December 2012, there was no significant investment held by the Target Subsidiaries.

**Material Acquisition and Disposal**

During the year ended 31 December 2012, there was no material acquisition and disposal of subsidiaries and associated companies by the Target Subsidiaries.

**Contingent Liabilities**

The Target Subsidiaries did not have any material contingent liabilities as at 31 December 2012.

**Connected Transactions**

During the year, the advisory fee paid and payable by the Target Subsidiaries to Huaneng Trust amounted to approximately RMB5.0 million (2011: nil) pursuant to the Consulting Service Agreements.

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2011

### Financial Review

*A. Panzhihua Yanjiang*

Revenue for the year ended 31 December 2011 amounted to approximately RMB262.8 million, representing an increase of approximately RMB134.4 million or 104.6%, as compared to approximately RMB128.4 million for the year ended 31 December 2010. The increase was mainly attributable to (i) increase in sales volume of raw coal from approximately 363,000 tonnes for the corresponding period in 2010 to approximately 578,000 tonnes for the year; and (ii) increase in average selling price of raw coal from approximately RMB349.8 per tonne for the corresponding period in 2010 to approximately RMB434.3 per tonne for the year.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB77.4 million, representing an increase of approximately RMB21.9 million or 39.4%, as compared to approximately RMB55.5 million for the year ended 31 December 2010. The increase was mainly resulted from the increase in production volume of raw coal from approximately 363,000 tonnes for the corresponding period in 2010 to approximately 588,000 tonnes for the year.

Other income for the year ended 31 December 2011 amounted to approximately RMB28.4 million, representing a slight increase of approximately RMB1.3 million, as compared to approximately RMB27.1 million for the year ended 31 December 2010. The increase was due to the increase in imputed interest income on amount due from immediate holding company and fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB8.2 million, representing an increase of approximately RMB1.6 million, as compared with approximately RMB6.6 million for the year ended 31 December 2010. The increase was mainly resulted from an increase of approximately RMB1.4 million in staff costs for the year.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB13.0 million, representing an increase of approximately RMB11.1 million, as compared with approximately RMB1.9 million for the year ended 31 December 2010. The increase was attributable to the decrease in interest expense on advance drawn on bills receivable discounted without recourse.

Income tax expenses amounted to approximately RMB20.7 million for the year ended 31 December 2011, representing an increase of approximately RMB15.5 million, as compared to approximately RMB5.2 million for the year ended 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 10.8% as compared to 5.7% for the year ended 31 December 2010. The decrease was mainly attributable to the tax effect of concessionary tax rate granted.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB172.0 million, representing an increase of approximately RMB85.7 million or 99.2% as compared to approximately RMB86.3 million for the year ended 31 December 2010. The net profit margin was approximately 65.4% for the year as compared to 67.2% in corresponding period in 2010.

*B. Yunnan Hidili*

Revenue for the year ended 31 December 2011 amounted to approximately RMB435.7 million, representing an increase of approximately RMB129.6 million or 42.3%, as compared to approximately RMB306.1 million for the year ended 31 December 2010. The increase was mainly attributable to (i) increase in sales volume of clean coal and thermal coal from approximately 287,000 tonnes and 102,000 tonnes respectively for the corresponding period in 2010 to approximately 356,000 tonnes and 137,000 tonnes respectively for the year; and (ii) increase in average selling price of clean coal and thermal coal from approximately RMB1,002.1 per tonne and RMB163.6 per tonne respectively for the corresponding period in 2010 to approximately RMB1,124.2 per tonne and RMB226.7 per tonne respectively for the year.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB369.4 million, representing an increase of approximately RMB121.4 million or 49.0%, as compared to approximately RMB248.0 million for the year ended 31 December 2010. The increase was mainly resulted from (i) the increase in production volume of raw coal from approximately 168,000 tonnes for the corresponding period in 2010 to approximately 209,000 tonnes for the year; and (ii) the increase in purchase costs of raw coal for clean coal processing from fellow subsidiaries.

Other income for the year ended 31 December 2011 amounted to approximately RMB29.5 million, representing an increase of approximately RMB14.5 million, as compared to approximately RMB15.0 million for the year ended 31 December 2010. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB22.5 million, representing a decrease of approximately RMB1.2 million, as compared with approximately RMB23.7 million for the year ended 31 December 2010. The decrease was mainly resulted from the increase of approximately RMB2.1 million in staff costs but totally offset by the decrease in loss on disposal of property, plant and equipment of approximately RMB3.6 million incurred in the year ended 31 December 2010.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB24.3 million, representing a decrease of approximately RMB13.4 million, as compared with approximately RMB37.7 million for the year ended 31 December 2010. The decrease was attributable to (i) the decrease in interest income on bank borrowings of approximately RMB6.0 million and (ii) the increase in interest capitalized in construction in progress of approximately RMB9.8 million but partly offset by the increase in interest expenses payable to holding companies and fellow subsidiaries of approximately RMB2.9 million.

Income tax expenses amounted to approximately RMB14.9 million for the year ended 31 December 2011, representing an increase of approximately RMB11.6 million, as compared to approximately RMB3.3 million for the year ended 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 30.3% as compared to 28.3% for the year ended 31 December 2010.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB34.1 million, representing an increase of approximately RMB25.7 million or 304.7% as compared to approximately RMB8.4 million for the year ended 31 December 2010. The net profit margin was approximately 7.8% for the year as compared to 2.8% in corresponding period in 2010.

*C. Fuyuan Kunyuan*

Revenue for the year ended 31 December 2011 amounted to approximately RMB27.8 million, representing a decrease of approximately RMB10.8 million or 27.9%, as compared to approximately RMB38.6 million for the period from 19 January 2010 to 31 December 2010. The decrease was mainly attributable to both the decrease in sales volume of raw coal from approximately 80,000 tonnes for the period from 19 January 2010 to 31 December 2010 to approximately 69,000 tonnes for the year and average selling price of raw coal from approximately RMB485.5 per tonne for the period from 19 January 2010 to 31 December 2010 to approximately RMB406.4 per tonne for the year respectively.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB9.2 million, representing a decrease of approximately RMB2.6 million or 21.8%, as compared to approximately RMB11.8 million for the period from 19 January 2010 to 31 December 2010. The decrease was mainly resulted from the decrease in transportation expenses of approximately RMB2.5 million. The production volume of raw coal remained at similar level of approximately 74,000 tonnes for the year.

Other income for the year ended 31 December 2011 amounted to approximately RMB4,600, representing an increase of approximately RMB3,100, as compared to approximately RMB1,500 for the period from 19 January 2010 to 31 December 2010. The increase was due to the increase in bank interest income of approximately RMB1,400 during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB2.7 million, maintaining at similar level of approximately RMB2.5 million for the period from 19 January 2010 to 31 December 2010.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB1.9 million, representing an increase of approximately RMB1.7 million, as compared with approximately RMB0.2 million for the period from 19 January 2010 to 31 December 2010. The increase was attributable to the increase in imputed interest expenses on amount due to an immediate holding company since the average outstanding amount increased during the year.

Income tax expenses amounted to approximately RMB0.1 million for the year ended 31 December 2011, representing a decrease of approximately RMB5.9 million, as compared to approximately RMB6.0 million for the period from 19 January 2010 to 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 0.9% as compared to 25.1% for the period from 19 January 2010 to 31 December 2010. The decrease was mainly attributable to the utilization of tax loss in previous year.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB13.9 million, representing a decrease of approximately RMB4.2 million or 23.2% as compared to approximately RMB18.1 million for the period from 19 January 2010 to 31 December 2010. The net profit margin was approximately 49.8% for the year as compared to 46.8% for the period from 19 January 2010 to 31 December 2010.

*D. Fuyuan Xiangda*

Revenue for the year ended 31 December 2011 amounted to approximately RMB64.3 million, representing a decrease of approximately RMB11.2 million or 14.9%, as compared to approximately RMB75.5 million for the year ended 31 December 2010. The decrease was mainly attributable to (i) sharp decrease in sales volume of raw coal from approximately 188,000 tonnes in the corresponding period in 2010 to approximately 30,000 tonnes for the year; and (ii) decrease in average selling price of raw coal from approximately RMB402.6 per tonne for the corresponding period in 2010 to approximately RMB301.3 per tonne for the year but partly compensated by the increase in sales of approximately 51,000 tonnes and 11,000 tonnes of clean coal and thermal coal respectively at average selling prices of approximately RMB984.2 per tonne and RMB421.7 per tonnes respectively.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB23.0 million, representing a decrease of approximately RMB17.6 million or 43.4%, as compared to approximately RMB40.6 million for the year ended 31 December 2010. The decrease was mainly resulted from the decrease in production volume of raw coal from approximately 195,000 tonnes for the corresponding period in 2010 to 151,000 tonnes for the year.

Other income for the year ended 31 December 2011 amounted to approximately RMB15,000, representing a decrease of approximately RMB35,000, as compared to approximately RMB50,000 for the year ended 31 December 2010. The decrease was due to the decrease in bank interest income as the average deposit decreased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB8.6 million, representing an increase of approximately RMB1.2 million, as compared with approximately RMB7.4 million for the year ended 31 December 2010. The increase was mainly resulted from an increase of approximately RMB2.1 million in depreciation and amortization expenses but offset by the partly decrease in travelling and entertainment expenses of approximately RMB0.8 million.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB4.8 million, representing a decrease of approximately RMB1.2 million, as compared with approximately RMB6.0 million for the year ended 31 December 2010. The decrease was attributable to the increase in imputed interest expenses on amounts due to an intermediate holding company and fellow subsidiaries of approximate RMB1.0 million and the increase in interest capitalized of approximately RMB0.2 million during the year.

Income tax expenses amounted to approximately RMB8.8 million for the year ended 31 December 2011, representing an increase of approximately RMB3.8 million, as compared to approximately RMB5.0 million for the year ended 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 31.6% as compared to 23.0% for the corresponding period of 2010. The increase was mainly attributable to the tax effect of expenses not deductible for tax purpose in relation to the interest expenses on amounts due to an intermediate holding company and fellow subsidiaries.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB19.1 million, representing an increase of approximately RMB2.5 million or 14.9% as compared to approximately RMB16.6 million for the year ended 31 December 2010. The net profit margin was approximately 29.7% for the year as compared to 22.0% in corresponding period in 2010.

*E. Yunnan Henglong*

Revenue for the year ended 31 December 2011 amounted to approximately RMB35.3 million, representing a decrease of approximately RMB12.5 million or 26.1%, as compared to approximately RMB47.8 million for the period from 3 February 2010 to 31 December 2010. The decrease was mainly attributable to (i) decrease in sales volume of raw coal from approximately 91,000 tonnes for the period from 3 February 2010 to 31 December 2010 to approximately 88,000 tonnes for the year and (ii) decrease in average selling price of raw coal from approximately RMB524.1 per tonne for the period from 3 February 2010 to 31 December 2010 to approximately RMB402.4 per tonne for the year.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB13.5 million, representing a decrease of approximately RMB4.8 million or 26.0%, as compared to approximately RMB18.3 million for the period from 3 February 2010 to 31 December 2010. The decrease was mainly resulted from the decrease in production volume of raw coal from approximately 109,000 tonnes for the period from 3 February 2010 to 31 December 2010 to approximately 75,000 tonnes for the year.

Other income for the year ended 31 December 2011 amounted to approximately RMB4.5 million, representing an increase of approximately RMB4.4 million, as compared to approximately RMB0.1 million for the period from 3 February 2010 to 31 December 2010. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB3.1 million, representing an increase of approximately RMB1.5 million, as compared with approximately RMB1.6 million for the period from 3 February 2010 to 31 December 2010. The increase was mainly resulted from an increase of approximately RMB1.2 million in staff costs for the year.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB18.4 million, representing an increase of approximately RMB9.2 million, as compared with approximately RMB9.2 million for the period from 3 February 2010 to 31 December 2010. The increase was attributable to the increase in imputed interest expenses on amount due to a shareholder and fellow subsidiaries of approximate RMB11.3 million but offset by the increase in interest capitalized of approximately RMB2.0 million during the year.

Income tax expenses amounted to approximately RMB5.2 million for the year ended 31 December 2011, representing decrease of approximately RMB1.7 million, as compared to approximately RMB6.9 million for the period from 3 February 2010 to 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 107.7% as compared to 36.5% for the period from 3 February 2010 to 31 December 2010. The increase was mainly attributable to the tax effect of expenses not deductible for tax purpose arising from the imputed interest expenses payable to a shareholder and fellow subsidiaries.

As a result of the foregoing, the loss for the year ended 31 December 2011 amounted to approximately RMB0.4 million, representing a decrease of approximately RMB12.4 million or 103.1% as compared to profit of approximately RMB12.0 million for the period from 3 February 2010 to 31 December 2010.

*F. Fuyuan Dahe*

Revenue for the year ended 31 December 2011 amounted to approximately RMB150.1 million, representing an increase of approximately RMB74.4 million or 98.1%, as compared to approximately RMB75.7 million for the year ended 31 December 2010. The increase was mainly attributable to increase in sales volume of raw coal from approximately 154,000 tonnes for the corresponding period in 2010 to approximately 313,000 tonnes for the year but slightly offset by the decrease in average selling price of raw coal from approximately RMB490.6 per tonne for the corresponding period in 2010 to approximately RMB479.6 per tonne for the year.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB36.3 million, representing an increase of approximately RMB15.6 million or 75.6%, as compared to approximately RMB20.7 million for the year ended 31 December 2010. The increase was mainly resulted from the increase in production volume of raw coal from approximately 94,000 tonnes for the corresponding period in 2010 to approximately 169,000 tonnes for the year.

Other income for the year ended 31 December 2011 amounted to approximately RMB2.9 million, representing an increase of approximately RMB2.5 million, as compared to approximately RMB0.4 million for the year ended 31 December 2010. The increase was mainly due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB9.8 million, representing an increase of approximately RMB3.0 million, as compared with approximately RMB6.8 million for the year ended 31 December 2010. The increase was mainly attributable to an increase in donation and government levies of approximately RMB1.8 million and RMB0.9 million respectively.

Finance costs for the year ended 31 December 2011 amounted to nil, representing a decrease of 100%, as compared with approximately RMB3.6 million for the year ended 31 December 2010. The decrease was attributable to the decrease in imputed interest expenses on amount due to an immediate holding company and fully capitalized during the year.

Income tax expenses amounted to approximately RMB26.1 million for the year ended 31 December 2011, representing decrease of approximately RMB14.6 million, as compared to approximately RMB11.5 million for the year ended 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 24.5% as compared to 25.5% for the year ended 31 December 2010.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB80.7 million, representing an increase of approximately RMB47.1 million or 140.4% as compared to approximately RMB33.6 million for the year ended 31 December 2010. The net profit margin was approximately 53.8% for the year as compared to 44.3% in corresponding period in 2010.

*G. Fuyuan Tonghe*

Revenue for the year ended 31 December 2011 amounted to approximately RMB56.0 million, representing a decrease of approximately RMB11.9 million or 17.5%, as compared to approximately RMB67.9 million for the period from 21 June 2010 to 31 December 2010. The decrease was mainly attributable to (i) decrease in sales volume of raw coal from approximately 138,000 tonnes for the period from 21 June 2010 to 31 December 2010 to approximately 118,000 tonnes for the year and (ii) decrease in average selling price of raw coal from approximately RMB490.8 per tonne for the period from 21 June 2010 to 31 December 2010 to approximately RMB473.7 per tonne for the year.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB25.4 million, maintaining at similar level, as compared to approximately RMB25.0 million for the period from 21 June 2010 to 31 December 2010. During the year, the production volume of raw coal was approximately 147,000 tonnes, similar to approximately 142,000 tonnes for the period from 21 June 2010 to 31 December 2010.

Other income for the year ended 31 December 2011 amounted to approximately RMB2.5 million, representing a sharp increase of approximately RMB2.5 million, as compared to approximately RMB7,000 for the period from 21 June 2010 to 31 December 2010. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB5.5 million, representing an increase of approximately RMB2.4 million, as compared with approximately RMB3.1 million for the period from 21 June 2010 to 31 December 2010. The increase was mainly resulted from (i) an increase of approximately RMB0.8 million in staff costs for the year; and (ii) an increase in depreciation and amortisation of approximately RMB0.8 million during the year.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB6.3 million, representing an increase of approximately RMB5.5 million, as compared with approximately RMB0.8 million for the period from 21 June 2010 to 31 December 2010. The increase was attributable to the increase in imputed interest expenses on amount due to an intermediate holding company of approximate RMB6.2 million in which approximately RMB0.7 million was capitalized to construction in progress during the year.

Income tax expenses amounted to approximately RMB0.3 million for the year ended 31 December 2011, representing decrease of approximately RMB9.5 million, as compared to approximately RMB9.8 million for the period from 21 June 2010 to 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 1.5% as compared to 25.1% for the period from 21 June 2010 to 31 December 2010. The decrease was mainly attributable to the utilization of tax losses provided in prior period.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB21.0 million, representing a decrease of approximately RMB8.3 million or 28.4% as compared to approximately RMB29.3 million for the period from 21 June 2010 to 31 December 2010. The net profit margin was approximately 37.5% for the year as compared to 43.1% in the period from 21 June 2010 to 31 December 2010.

*H. Fuyuan Jintai*

Revenue for the year ended 31 December 2011 amounted to approximately RMB102.5 million, representing an increase of approximately RMB58.9 million or 135.1%, as compared to approximately RMB43.6 million for the period from 19 January 2010 to 31 December 2010. The increase was mainly attributable to the significant increase in sales volume of raw coal from approximately 85,000 tonnes for the period from 19 January 2010 to 31 December 2010 to approximately 283,000 tonnes for the year but slightly offset by the decrease in average selling price of raw coal from approximately RMB513.8 per tonne for the period from 19 January 2010 to 31 December 2010 to approximately RMB361.9 per tonne for the year.

Cost of sales for the year ended 31 December 2011 amounted to approximately RMB21.7 million, representing an increase of approximately RMB9.5 million or 77.3%, as compared to approximately RMB12.2 million for the period from 19 January 2010 to 31 December 2010. During the year, the production volume of raw coal increased from approximately 86,000 tonnes for the period 19 January 2010 to 31 December 2010 to approximately 210,000 tonnes for the year. With the use of the upgraded system, both the direct labour, power costs and depreciation led an increase of approximately RMB7.5 million during the year.

Other income for the year ended 31 December 2011 amounted to approximately RMB4.1 million, representing an increase of approximately RMB4.0 million, as compared to approximately RMB0.1 million for period from 19 January 2010 to 31 December 2010. The increase was due to the increase in imputed interest income on amount due from fellow subsidiaries as the average outstanding amount increased during the year.

Administrative expenses for the year ended 31 December 2011 amounted to approximately RMB2.5 million, maintaining at similar level, as compared with approximately RMB2.2 million for the period from 19 January 2010 to 31 December 2010. During the year, bank charges and legal and professional expenses decreased by approximately RMB0.2 million but fully offset by the increase in other taxes of approximately RMB0.5 million.

Finance costs for the year ended 31 December 2011 amounted to approximately RMB9.9 million, representing an increase of approximately RMB2.8 million, as compared with approximately RMB7.1 million for the period from 19 January 2010 to 31 December 2010. The increase was mainly attributable to the increase in interest payable to a shareholder and fellow subsidiaries of approximately RMB4.0 million in which approximately RMB1.1 was capitalized to construction in progress during the year.

Income tax expenses amounted to approximately RMB19.6 million for the year ended 31 December 2011, representing an increase of approximately RMB13.0 million, as compared to approximately RMB6.6 million for the period from 19 January 2010 to 31 December 2010. The effective tax rate for the year ended 31 December 2011 was 27.1% as compared to 29.8% for the period from 19 January 2010 to 31 December 2010.

As a result of the foregoing, the profit for the year ended 31 December 2011 amounted to approximately RMB52.8 million, representing an increase of approximately RMB37.3 million or 240.2% as compared to approximately RMB15.5 million for the period from 19 January 2010 to 31 December 2010. The net profit margin was approximately 51.6% for the year as compared to 35.6% in the period from 19 January 2010 to 31 December 2010.

**Liquidity, Financial Resources and Capital Structure**

The Target Subsidiaries mainly financed their respective mining and coal washing activities and capital expenditures through advances from fellow subsidiaries, immediate holding company and intermediate holding companies.

As at 31 December 2011, the combined bank balances and cash of the Target Subsidiaries amounted to approximately RMB46.7 million (2010: RMB24.6 million).

The Target Subsidiaries had no bank borrowings as at 31 December 2011 (2010: bank borrowings of RMB15 million). The combined amounts due to fellow subsidiaries, immediate holding company and intermediate holding companies amounted to approximately RMB1,896.0 million, RMB16.5 million and RMB1,281.0 million respectively (2010: RMB1,227.7 million, RMB456.0 million and RMB1,149.7 million respectively), of which RMB2,200.4 million (2010: RMB2,502.3 million) was repayable within one year. Interest was charged at a range of 6.15% to 8.275% per annum.

The gearing ratio (calculate as the aggregate of bank borrowings, amounts due to fellow subsidiaries, immediate holding company and intermediate holding companies divided by total assets) of the Target Subsidiaries as at 31 December 2011 was 54.1% (2010: 62.3%).

**Pledge of Assets**

As at 31 December 2011, the Target Subsidiaries did not have any charge on their assets.

**Employees**

As at 31 December 2011, the Target Subsidiaries maintained an aggregate of approximately 4,580 employees as compared with approximately 3,450 employees at 31 December 2010.

During the year ended 31 December 2011, the aggregate staff cost of the Target Subsidiaries was approximately RMB108.7 million, representing an increase of approximately RMB15.1 million, as compared to approximately RMB93.6 million for the year ended 31 December 2010.

The salary and bonus policy of the Target Subsidiaries is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

**Risk in Foreign Exchange**

Since all of the Target Subsidiaries' business activities are transacted in RMB, the Directors consider that the Target Subsidiaries' risk in foreign exchange is insignificant.

**Significant Investment Held**

During the year ended 31 December 2011, there was no significant investment held by the Target Subsidiaries.

**Material Acquisition and Disposal**

During the year ended 31 December 2011, there was no material acquisition and disposal of subsidiaries and associated companies by the Target Subsidiaries.

**Contingent Liabilities**

The Target Subsidiaries did not have any material contingent liabilities as at 31 December 2011.

**Connected Transactions**

As at 31 December 2011, the Target Subsidiaries did not have any connected transactions.

*For illustrative purposes only, set out below is the unaudited pro forma statement of adjusted consolidated statement of financial position of the Group (the "**Unaudited Pro Forma Financial Information**") after completion of the Share Transfer. Although reasonable care has been exercised in preparing the Unaudited Pro Forma Financial Information, Shareholders who read the information below should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial position for the financial period concerned.*

## (A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP

The Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules to illustrate the effect of the Share Transfer on the consolidated statement of financial position of the Group as if the Share Transfer had taken place on 31 December 2012. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2012 and any future date.

## UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Audited consolidated statement of financial position of the Group as at 31 December 2012 | Proforma adjustment for Capital Injections | Unaudited pro forma consolidated statement of financial position of the Group after Capital Injections | Proforma adjustment for Share Transfer | Unaudited pro forma consolidated statement of financial position of the Group after Share Transfer |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 13,594,766 | | 13,594,766 | | 13,594,766 |
| Prepaid lease payments | 29,031 | | 29,031 | | 29,031 |
| Intangible assets | 108,282 | | 108,282 | | 108,282 |
| Interests in associates | 144,023 | | 144,023 | | 144,023 |
| Available-for-sale investments | 228,330 | | 228,330 | | 228,330 |
| Long term deposits and other receivables | 206,015 | | 206,015 | | 206,015 |
| Restricted bank deposits | 72,017 | | 72,017 | | 72,017 |
| | 14,382,464 | | 14,382,464 | | 14,382,464 |

| | Audited consolidated statement of financial position of the Group as at 31 December 2012 | Proforma adjustment for Capital Injections | Unaudited pro forma consolidated statement of financial position of the Group after Capital Injections | Proforma adjustment for Share Transfer | Unaudited pro forma consolidated statement of financial position of the Group after Share Transfer |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | |
| CURRENT ASSETS | | | | | |
| Inventories | 170,053 | | 170,053 | | 170,053 |
| Bills and trade receivables | 887,662 | | 887,662 | | 887,662 |
| Bills receivables discounted with recourse | 9,800 | | 9,800 | | 9,800 |
| Other receivables and prepayments | 461,597 | | 461,597 | | 461,597 |
| Amounts due from associates | 9,935 | | 9,935 | | 9,935 |
| Amounts due from related parties | 22,042 | | 22,042 | | 22,042 |
| Held-for-trading investments | 52,836 | | 52,836 | | 52,836 |
| Pledged bank deposits | 179,261 | | 179,261 | | 179,261 |
| Bank balances and cash | 1,554,368 | | 1,554,368 | (1,499,957) | 54,411 |
| | 3,347,554 | | 3,347,554 | | 1,847,597 |
| CURRENT LIABILITIES | | | | | |
| Bills and trade payables | 461,080 | | 461,080 | | 461,080 |
| Advances drawn on bills receivables discounted with recourse | 9,800 | | 9,800 | | 9,800 |
| Other payables and accrued expenses | 535,583 | | 535,583 | | 535,583 |
| Amount due to an associate | 444 | | 444 | | 444 |
| Amounts due to related parties | 823 | | 823 | | 823 |
| Amount due to a non-controlling shareholder | 14,765 | | 14,765 | | 14,765 |
| Tax payables | 142,204 | | 142,204 | | 142,204 |
| Senior notes | 2,518,094 | | 2,518,094 | | 2,518,094 |
| Convertible loan notes | 1,820,007 | | 1,820,007 | | 1,820,007 |
| Bank and other borrowings — due within one year | 2,571,000 | | 2,571,000 | | 2,571,000 |
| | 8,073,800 | | 8,073,800 | | 8,073,800 |
| NET CURRENT LIABILITIES | (4,726,246) | | (4,726,246) | | (6,226,203) |
| | 9,656,218 | | 9,656,218 | | 8,156,261 |

| | Audited consolidated statement of financial position of the Group as at 31 December 2012 | Proforma adjustment for Capital Injections | Unaudited pro forma consolidated statement of financial position of the Group after Capital Injections | Proforma adjustment for Share Transfer | Unaudited pro forma consolidated statement of financial position of the Group after Share Transfer |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* | |
| CAPITAL AND RESERVES | | | | | |
| Share capital | 199,078 | | 199,078 | | 199,078 |
| Reserves | 7,085,719 | | 7,085,719 | (27,022) | 7,058,697 |
| Equity attributable to owners of the Company | 7,284,797 | | 7,284,797 | | 7,257,775 |
| Non-controlling interests | 99,800 | | 99,800 | | 99,800 |
| TOTAL EQUITY | 7,384,597 | | 7,384,597 | | 7,357,575 |
| NON-CURRENT LIABILITIES | | | | | |
| Provision for restoration and environmental costs | 17,434 | | 17,434 | | 17,434 |
| Other long term payables | 123,704 | | 123,704 | | 123,704 |
| Deferred tax liabilities | 317,548 | | 317,548 | | 317,548 |
| Bank and other borrowings — due after one year | 1,812,935 | | 1,812,935 | (1,472,935) | 340,000 |
| | 2,271,621 | | 2,271,621 | | 798,686 |
| | 9,656,218 | | 9,656,218 | | 8,156,218 |

*Notes:*

(1) Extracted from the consolidated statement of financial position of the Group as at 31 December 2012 as set out in the Company's annual report for the year ended 31 December 2012 dated 26 March 2013.

(2) The capital injection from Huaneng Trust pursuant to capital injection agreements dated 28 August 2012 has been completed and recorded as other borrowings on the consolidated statement of financial position of the Group as at 31 December 2012.

(3) The adjustments reflect (a) the payment for buy back Target Equity Interests (other than Panzhihua Yanjiang) amounting to RMB1,127,737,000, which comprises consideration of RMB1,220,430,000 deducted for the effective interest expenses for the period from 1 January 2013 to 22 May 2013 amounting to RMB53,003,000 assuming that had taken place on 31 December 2012 and premium paid in advance at 31 December 2012 of RMB39,690,000; (b) the payment for buy back equity interest of Panzhihua Yanjiang amounting to RMB372,220,000, which comprises consideration of RMB387,205,000 assuming that had been taken place on 31 December 2012 deducted for the premium paid in advance at 31 December 2012 of RMB14,985,000; and (c) loss on derecognition of other secured loans carried at amortised cost of RMB27,022,000.

## (B) ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.
德勤

**TO THE DIRECTORS OF HIDILI INDUSTRY INTERNATIONAL DEVELOPMENT LIMITED**

We report on the unaudited pro forma financial information of Hidili Industry International Development Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Group buy back all the equity interests which 華能貴誠信托有限公司 Huaneng Guicheng Trust Co., Ltd injected to certain subsidiaries of the Company pursuant to capital injection agreements dated 28 August 2012, might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 25 June 2013 (the "**Circular**"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix IV to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 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 Hong Kong Institute of Certified Public Accountants. 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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements 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 future and may not be indicative of the consolidated financial position of the Group as at 31 December 2012 or any future date.

**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 so far as such policies relate to the transaction; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

25 June 2013

## 1. RESPONSIBILITY STATEMENT

This circular, 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 contained herein or this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES

At the Latest Practicable Date, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "**SFO**")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

| Name | Name of the entity | Number of issued ordinary shares held | Nature of interest | Approximate percentage of the issued share capital of the Company/ percentage of shareholding |
|---|---|---|---|---|
| Mr. Xian Yang ("**Mr. Xian**") *(Note 1)* | The Company | 1,100,674,000 | Founder and beneficiary of trust | 53.04% |
| Mr. Xian | Sanlian Investment Holding Limited ("**Sanlian Investment**") | 1,000 | Beneficial owner | 100% |
| Mr. Sun Jiankun ("**Mr. Sun**") *(Note 2)* | The Company | 19,380,000 | Interest of controlled corporation | 0.93% |
| Mr. Sun | Able Accord Enterprises Limited ("**Able Accord**") | 1,000 | Beneficial owner | 100% |

| Name | Name of the entity | Number of issued ordinary shares held | Nature of interest | Approximate percentage of the issued share capital of the Company/ percentage of shareholding |
|---|---|---|---|---|
| Mr. Wang Rong ("**Mr. Wang**") *(Note 3)* | The Company | 7,887,000 | Interest of controlled corporation | 0.38% |
| Mr. Wang | Pavlova Investment Limited ("**Pavlova Investment**") | 1,000 | Beneficial owner | 100% |
| Mr. Chan Chi Hing | The Company | 80,000 | Beneficial owner | 0.004% |

*Notes:*

1. The 1,100,674,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("**Xian Yang No.1A**") and Sanlian No.1 Ltd. ("**Sanlian No.1**"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,100,674,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

2. The 19,380,000 shares of the Company are held by Able Accord, the entired issued share capital of which is held by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in 19,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a director of Able Accord.

3. The 7,887,000 shares of the Company are held by Pavlova Investment, the entire issued share capital of which is held by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in 7,887,000 shares held by Pavlova Investment by virtue of the SFO. Mr. Wang is also a director of Pavlova Investment.

Save as disclosed above, to the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Saved as disclosed, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## 3. SUBSTANTIAL SHAREHOLDERS

At the Latest Practicable Date, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name | Number of issued ordinary shares held* | Nature of interest | Approximate percentage of the issued share capital of the Company* |
|---|---|---|---|
| Sarasin Trust *(Note 1)* | 561,343,740 (L) | Trustee | 27.05% (L) |
| Sanlian Investment *(Note 1)* | 1,100,674,000 (L) | Beneficial owner | 53.04% (L) |
| Mr. Xian *(Note 1)* | 1,100,674,000 (L) | Interest of controlled corporation | 53.04% (L) |
| Ms. Qiao Qian *(Note 2)* | 1,100,674,000 (L) | Interest of spouse | 53.04% (L) |
| Baring Private Equity Asia GP V, L.P. *(Note 3)* | 400,000,000 | Interest of controlled corporation | 19.28% (L) |
| Jean Eric Salata *(Note 3)* | 400,000,000 | Interest of controlled corporation | 19.28% (L) |

* (L)-Long position

*Notes:*

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,100,674,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole director of Sanlian Investment.

2. Ms. Qiao Qian is the spouse of Mr. Xian. By virtue of the SFO, Ms. Qiao Qian is also deemed, as the spouse of Mr. Xian, to be interested in all the Shares in which Mr. Xian is deemed to be interested.

3. Baring Private Equity Asia GP V, L.P. was wholly controlled by Baring Private Equity Asia GP V Limited (as general partner), a company which wholly controlled The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V. Limited was wholly controlled by Mr. Jean Eric Salata. Baring Private Equity Asia V Holding (8) Limited was 99.35% controlled by The Baring Asia Private Equity Fund V, L.P. Accordingly, Baring Private Equity Asia GP V, L.P. and Jean Eric Salata by virtue of the SFO are deemed to be interested in 400,000,000 Shares.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or the chief executive of the Company) who had/would have interests or short positions in the shares or underlying shares of the Company or its associated corporations of 5% or more which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

## 4. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years. The service agreements of the executive Directors have been renewed on 1 September 2010. Each of the independent non-executive Directors has entered into a service agreement with the Company for a fixed term of two years. The service agreements of the independent non-executive Directors have been renewed on 1 September 2011.

As at the Latest Practicable Date, none of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation (other than the statutory compensation).

## 5. COMPETING INTERESTS

None of the Directors and their respective associates have any interest in a business, which competes or is likely to compete with the businesses of the Group.

## 6. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

## 7. MATERIAL ADVERSE CHANGE

Other than the information as disclosed in the Company's annual results announcement for the year ended 31 December 2012 dated 26 March 2013, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

## 8. LITIGATION

On 28 January 2013, Blackrock Japan Co., Limited (the "**First Plaintiff**") and Blackrock (Singapore) Limited (the "**Second Plaintiff**") (collectively known as the "**Plaintiffs**"), commenced legal proceedings against the Company in the High Court of Hong Kong Special Administrative Region Court of First Instance (the "**Action**").

The First Plaintiff is the investment manager of two high yield in January 2010 bond funds (the "**Funds**"). lt delegated the investment management of the Funds to the Second Plaintiff. The Funds are the holders of certain bonds issued by the Company (the "**Bonds**"). Under the terms of the Bonds, the Funds were entitled to require the Company to redeem some or all of the Bonds on 19 January 2013. Instead of issuing redemption notices on 18 and 19 December 2012, it is alleged that the Plaintiffs had issued by mistake notices (the "**Notices**") electing to convert the Bonds into shares in the Company. The Plaintiffs assert that the Company knew or ought to have known that the Notices were issued by mistake and therefore are void, or alternatively are voidable in equity, and are of no legal effect. A statement of claim was served on the Company on 25 February 2013 and the Company served the defence on 29 April 2013.

Save as disclosed, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by the Group within the two years immediately preceding the date of the this circular and up to and including the Latest Practicable Date which are, or may be, material:

(i) three equity purchase agreements dated 13 December 2011 entered into between 雲南恒鼎煤業有限公司 (Yunnan Hidili Coal Company Limited*) as purchaser and 曲靖明珠集團投資開發有限公司 (Qujing Mingzhu Group Investment Development Company Limited*) as vendor for the acquisition of the 20% equity interest in 盤縣富源昆鐵選煤有限責任公司 (Panxian Fuyuan Kuntie Coal Washing Company

Limited*), 18% equity interest in 貴州威箐煤焦物流有限公司 (Guizhou Weiqing Coking Logistic Company Limited*) and 41.78% in 富源金通煤焦有限公司 (Fuyuan Jintong Coking Company Limited*) at a cash consideration of RMB150 million in aggregate;

(ii) the Capital Injection Agreements;

(iii) the Share Transfer Agreements;

(iv) a conditional agreement dated 17 May 2013 entered into among Hidili, China, 攀枝花市恒鼎煤焦化有限公司 (Panzhihua Hidili Coal Industry Co., Ltd.*) and 雲南東源煤業集團有限公司 (Yunnan Dongyuan Coal Group Company Limited*) in relation to the disposal of 50% equity interest in Yunnan Hidili; and

(v) the Equity Transfer Agreements.

## 10. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

| Name | Qualification |
|---|---|
| Deloitte Touche Tohmatsu | certified public accountants |

Deloitte Touche Tohmatsu is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.

## 11. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Chu Lai Kuen. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Company in October 2008, she had over 16 years of working experience in auditing and financial management.

(b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Unit 3702, 37th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

(c) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East,Wanchai, Hong Kong.

(d) In the event of inconsistency, the English language of this circular shall prevail over the Chinese language.

## 12. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any week day (except public holidays) at Unit 3702, 37th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong for the period of 14 days from the date of this circular:

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the Capital Injection Agreements;

(d) the Share Transfer Agreements;

(e) the Equity Transfer Agreements;

(f) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(g) the annual reports of the Company for the three financial years ended 31 December 2012;

(h) the interim reports of the Company for the six months ended 30 June 2010, 2011 and 2012; and

(i) the valuation report of the net asset value of the Target Subsidiaries as at 30 April 2012 as appraised and issued by 北京天健興業資產評估有限公司 (Beijing Pan-China Assets Appraisal Co. Ltd.*).