



2008

THIRD QUARTERLY REPORT
第三季度業績報告

CHALLENGER GROUP HOLDINGS LIMITED 挑戰者集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 8203

**For identification purposes only
僅供識別*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Challenger Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover from the continuing and discontinued operations of the Group for the three months and nine months ended 31 December 2008 amounted to approximately HK\$11.9 million and HK\$39.1 million respectively (2007: HK\$70.8 million and HK\$288.4 million), representing a decrease of approximately 83.2% and 86.4% respectively as compared to the same period last year.
- (Loss)/profit attributable to equity holders of the Company for the three months and nine months ended 31 December 2008 amounted to approximately HK\$(11.6) million and HK\$85.5 million respectively (2007: HK\$63.7 million and HK\$73.1 million).
- (Loss)/earnings per share of the Group for the three months and nine months ended 31 December 2008 amounted to approximately HK cents (1.51) and HK cents 12.28 respectively (2007: HK cents 11.79 and HK cents 13.54).

UNAUDITED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND NINE MONTHS ENDED 31 DECEMBER 2008

The board of directors (the "Board" or the "Directors") of Challenger Group Holdings Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31 December 2008, together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

	Note	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2008 HK\$'000	2007 HK\$'000 (Restated)	2008 HK\$'000	2007 HK\$'000 (Restated)
Continuing operations					
Turnover	5	11,859	14,137	39,105	22,982
Cost of goods sold and services rendered		(3,394)	(3,395)	(10,706)	(5,608)
Gross profit		8,465	10,742	28,399	17,374
Other income		769	972	2,004	2,357
Selling and distribution costs		(455)	(725)	(1,479)	(1,178)
Administrative and other operating expenses		(11,384)	(10,345)	(37,902)	(18,829)
Loss from operations		(2,605)	644	(8,978)	(276)
Finance costs		(8,844)	(15)	(19,596)	(35)
Share of loss after tax of an associate less impairment loss		(569)	–	(597)	–
Excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries		491	–	61,211	–
Fair value gain on derivative liability of convertible notes		–	–	53,777	–
(Loss)/profit before tax		(11,527)	629	85,817	(311)
Income tax expense	6	–	5	–	–
(Loss)/profit for the period from continuing operations		(11,527)	634	85,817	(311)
Discontinued operation					
Profit for the period from discontinued operation		–	63,202	–	73,436
(Loss)/profit for the period		(11,527)	63,836	85,817	73,125

Third Quarterly Report 2008

	Note	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2008 HK\$'000	2007 HK\$'000 (Restated)	2008 HK\$'000	2007 HK\$'000 (Restated)
(Loss)/profit for the period attributable to:					
Equity holders of the Company		(11,589)	63,655	85,519	73,105
Minority interests		62	181	298	20
		(11,527)	63,836	85,817	73,125
Dividend	7	–	–	–	–
(Loss)/earnings per share (HK cents)					
From continuing and discontinued operations	8				
– basic		(1.51)	11.79	12.28	13.54
– dilute		(0.18)	–	10.04	–
From continuing operations					
– basic		(1.51)	0.12	12.28	(0.06)
– dilute		(0.18)	–	10.04	–

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company							
	Share capital	Share premium	Merger reserve	Foreign currency translation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	5,400	9,536	(122)	2,626	38,177	55,617	–	55,617
Translation difference	–	–	–	1,836	–	1,836	–	1,836
Net income recognised directly in equity	–	–	–	1,836	–	1,836	–	1,836
Profit for the period	–	–	–	–	73,105	73,105	20	73,125
Total recognised income and expense for the period	–	–	–	–	73,105	73,105	20	73,125
Disposed of subsidiaries	–	–	122	(4,462)	(122)	(4,462)	–	(4,462)
Acquisition of subsidiaries	–	–	–	–	–	–	4,677	4,677
At 31 December 2007	5,400	9,536	–	–	111,160	126,096	4,697	130,793

	Attributable to equity holders of the Company								
	Share capital	Share premium	Merger reserve	Foreign currency translation reserve	Share-based payment reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	5,400	9,536	-	-	5,859	107,167	127,962	12,352	140,314
Translation difference	-	-	-	7,548	-	-	7,548	(39)	7,509
Net income recognised directly in equity	-	-	-	7,548	-	-	7,548	(39)	7,509
Profit for the period	-	-	-	-	-	85,519	85,519	298	85,817
Total recognised income and expense for the period	-	-	-	-	-	85,519	85,519	298	85,817
Issue of shares	2,300	181,700	-	-	-	-	184,000	-	184,000
Acquisition of subsidiaries	-	-	57,503	-	-	-	57,503	27,301	84,804
Share-based payment	-	-	-	-	3,470	-	3,470	-	3,470
At 31 December 2008	7,700	191,236	57,503	7,548	9,329	192,686	466,002	39,912	505,914

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room 2701, 27/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the nine months ended 31 December 2008, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting periods beginning on 1 April 2007. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the nine months ended 31 December 2008 and the same period in last year.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimate. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

The accounting policies and basis of the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2008.

4. BUSINESS COMBINATION

Acquisition of 100% shareholding in Joy Harvest Holdings Limited.

In 10 June 2008, the Group through the acquisition of 100% entire issued share capital of Joy Harvest Holdings limited ("Joy Harvest") to control (i) a 49% interest in Inner Mongola Mengxi Minerals Limited ("Mengxi Minerals"). A Sino-foreign joint venture company set up to own and operate a coal mine with 99.6 million tones of reserve (based on estimation under the PRC coal reserves standard); and (ii) a 70% stake in Ordos GEM Coal & Chemical Co., Limited (another Sino-foreign joint venture company established to build and operate coal processing plants).

5. TURNOVER

An analysis of the Group's revenue are as follows:

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Continuing operations				
Provisions of auto beauty and repairs operations services	11,041	13,494	36,698	21,988
Trading of printer accessories and battery	818	643	2,407	994
	11,859	14,137	39,105	22,982
Discontinuing operation				
Trading of furniture products	-	56,629	-	265,457
	11,859	70,766	39,105	288,439

6. INCOME TAX EXPENSE

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Continuing operations				
Current tax – Hong Kong Profits Tax	–	–	–	(5)
	–	–	–	(5)
Discontinued operation				
Current tax – Hong Kong Profits Tax	–	–	–	–
– over-provision in prior year	–	5	–	5
	–	5	–	–

No provision for profit tax in the British Virgin Islands, Cayman Islands, Hong Kong or People's Republic of China has been provided as the Group does not have any assessable profit arising in or derived from these jurisdictions for the relevant periods.

7. DIVIDEND

The Directors do not recommend the payment of dividend for the nine months ended 31 December 2008 (2007: HK\$Nil).

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the nine months ended 31 December 2008.

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the Convertible Bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period are used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	31 December		31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/earnings				
For continuing and discontinued operations				
profit for the year attributable				
to the equity holders of the Company				
for calculation of basic earnings				
per share	(11,589)	63,655	85,519	73,105
Interest on convertible bonds	8,835	–	19,574	–
Earnings for the year attributable				
to the equity holders of the Company				
for calculation of diluted earnings				
per share	(2,754)	63,655	105,093	73,105
Number of shares				
Weighted average number of ordinary shares				
for the purposes of calculating basic				
earnings per share	770,000	540,000	770,000	540,000
Effect of dilution – weighted average number				
of ordinary shares:				
Convertible bonds	770,000	–	770,000	–
Weighted average number of ordinary shares				
for the purposes of calculating diluted				
earnings per share	1,540,000	540,000	1,540,000	540,000

No diluted profit per share for the three months and nine months ended 31 December 2007 had been disclosed as the Company did not have any Convertible Bonds outstanding during the prior period.

9. CONVERTIBLE BONDS

On 10 June 2008, the Company issued HK\$170 million Consideration Convertible Bonds and HK\$600 million of Placing Convertible Bonds (collectively the "Convertible Bonds") with a maturity date of 10 June 2013 (the "Maturity Date"). These bonds (with an aggregate face value of HK\$770 million) are unsecured and bear interest at the rate of 1% per annum. The holders of the Convertible Bonds shall have the right to convert at any time prior to the Maturity Date, the whole (in an amount or integral multiple of HK\$1 million) amount of the Convertible Bonds into convertible shares at the then prevailing conversion price subject to conversion cap and other conditions. Details of the principal terms of the Convertible Bonds are set out in the circular dated 30 April 2008.

The fair value of the liability component was determined by an independent professionally qualified valuer as at the issue date of the Convertible Bonds was amounting HK\$617 million.

The fair value of the embedded option in the current liabilities was determined by an independent professionally qualified valuers as at 30 September 2008 was amounting HK\$99 million.

10. SHARE CAPITAL

	Unaudited as at 31 December 2008 HK\$'000	Audited as at 31 March 2008 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
770,000,000 (31 March 2008: 540,000,000) ordinary shares of HK\$0.01 each	7,700	5,400

On 10 June 2008, the Company issued its share capital from 540 million shares to 770 million shares by the allotment of 230 million shares of HK\$0.80 each.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

For the nine months ended 31 December 2008, the Group generated its income from its auto beauty and repairs operations in Hong Kong while concurrently implementing its strategy as an integrated coking coal producer in People's Republic of China ("PRC").

During the period under review, severe competition continued to pressure the profit margin of the Group's auto subsidiary, Challenger Auto Services Limited ("CASL"). However, CASL is persevering by offering industry leading products and services at competitive prices. In 2008, CASL's excellence was recognized and celebrated when CASL became a proud recipient of the prestigious 2008 Hong Kong Top Services Brand Award, an event jointly sponsored by the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong. It is to be noted that CASL is the first and only auto service company to have been named as an award recipient in the history of this annual occasion.

The Group's subsidiary, Global On-Line Distribution Limited will continue as an on-line distributor of office supplies and equipment providing multi-channel and cross-border trade solutions to both corporate and individual on-line buyers.

On 10 June 2008, the Group completed the Sales and Purchase Agreement to acquire (the "Acquisition"); (i) a 49% interest in Inner Mongolia Mengxi Minerals Limited ("Mengxi Minerals"), a Sino-foreign joint venture company set up to own and operate a coking coal mine with 99.6 million tonnes of reserve (based on estimation under the PRC coal reserves standard); and (ii) a 70% stake in Ordos GEM Coal & Chemical Co., Limited ("Mengxi Chemical"), another Sino-foreign joint venture company established to build and operate coal processing plants. The Acquisition together with a Management Service Agreement ("MSA") executed earlier to entitle the Group to an additional 21% of profit distribution from Mengxi Minerals, effectively gives the Group a 70% profit distribution from Mengxi Minerals. Details of the Acquisition are set out in the Circular dated 30 April 2008. The Group's coal reserve which mainly consists of hard coking coal (an essential raw material in steel making), can be mined utilizing both the open pit and underground extraction methods. Being vertically integrated will assure the Group access to precious feed stock and provide the Group the ability to scale production of upstream, midstream and downstream coal products in accordance to prevailing market trend to maximize profit.

The consideration for the Acquisition (which amounted to HK\$900 million) was satisfied by: (i) HK\$170 million of Consideration Convertible Bonds; (ii) HK\$546 million of cash; and (iii) HK\$184 million of consideration shares (through the allotment of 230 million of shares at HK\$0.80 each). The HK\$546 million cash payment was financed from the proceeds of the HK\$600 million Placing Convertible Bond completed on 10 June 2008.

In recent months, the coal sector in China experienced unprecedented declines in sale volumes and prices in all types of raw coal and processed coal. An industry insider appropriately described this phenomenon as “a delayed effect of industrial de-stocking”. Industrial manufacturers, concerned with hyperinflation and Olympic transportation bottleneck, built up abundant raw material inventories in first half of 2008. When the financial crisis hit, these manufacturers cut all inventory to an abnormally low level resulting in an overdone spot price correction of raw materials (including metals and energy). However, there are signs to indicate that the inventory dumping process is over:

1. As of 22 January 2009, prices on some construction grade steel have increased as much as 9% month over month (“MoM”) and supply shortages were reported for certain specifications.
2. Recently, a prominent industry specialist continued to forecast China’s crude steel production to increase 1.9% year over year (“YoY”) in 2009 to 505 million tonnes, and increasing to 540 million tonnes in 2010, representing a 7% YoY increase.
3. The thermal coal market, a barometer of China’s industrial activities, has been improving both in sales turnover and prices. As of the second week of January, 2009, Qinhuangdao coal inventory has dropped 5 consecutive weeks to 49.4 million tonnes, representing an overall decrease of 46% from its historical high level of 92.3 million tonnes (recorded in 16 November 2008). During the same period, FOB Qinhuangdao spot prices for Shangxi blend of thermal coal were trading around 600 RMB/tonnes representing a 17% MoM improvement.
4. Similarly, prices in coking coal and coke have improved during the same period. Shanxi Gujiao #2 coking coal was trading around RMB 900/tonne registering a MoM increase of 5% and Tangshan #2 coke was trading around RMB1600/tonne, recording a MoM increase of 20%.

In the Group's Interim Report for the six months period ended 30 September 2008, the Group's management expected the raw coal prices in the Erdos/Wuhai region could be as low as RMB 320/tonne in early 2009 (due to reduced industrial activities as a result of winter and the Chinese New Year holidays) but we should see an improvement towards the normalized trading range of around RMB 500/tonne during the second half of the calendar year. Current raw coal price in Erdos/Wuhai is around RMB 350/tonne. Given the current uptrend in all key industrial indicators and the continuing influence of the RMB4.0 trillion stimulus package (being implemented since early November 2008), we are optimistic that the targeted trading range is achievable.

The Group's north open pit mine has started production. The south open pit is scheduled to start production in the 3rd quarter of the 2009 calendar year. We are targeting an aggregate of 1.6 million tonnes of raw coal to be produced from our 2 open pits in the 2009 calendar year.

Construction of the 1.5mt/annum beneficiation (washing) plant is scheduled to commence in March of 2009. The estimated capital expenditure is around RMB60 million. Commercial operation is scheduled for October of 2009. We are targeting production of 150,000 tonnes and 750,000 tonnes of coking coal for the 2009 and 2010 calendar years respectively.

Construction of the 1.5mt/annum underground mine will commence concurrently with the beneficiation plant in March of 2009. The underground mine construction will require 12 months to complete with trial production starting in the first quarter of 2010 calendar year and full commercial operation in 3rd quarter of the same year. Total capital cost is estimated at approximately RMB350 million. The targeted underground mine coal production for the 2010 calendar year is approximately 400,000 tonnes.

We are seeking a RMB250 million bank loan to fund part of the construction of the underground mine and the beneficiation plant. The loan application has been submitted to the bank's national committee for review and we foresee the loan to be approved towards the end of February, 2009. The balance of capital expenditure requirement for the underground mine and the beneficiation plant will be funded from cashflow generated from our open pit operation.

We are targeting the construction of the 1.0mt/annum coking plant to start in the later half of 2009. Construction will require 12 months to complete at an anticipated capital expenditure of approximately RMB300 million. We anticipate the bank will provide about RMB200 million of financing with the balance of the capital costs to be provided from operating cashflow.

We believe the current retracement in prices in raw coal is presenting the Group with an excellent opportunity to buy high quality coal assets in the Province of Inner Mongolia at attractive prices. Accordingly, we are actively seeking out acquisition opportunity to increase our coal reserve and production base. This will enable us to achieve greater economies of scale and to become a leading cost effective coking coal producer in China.

FINANCIAL REVIEW

During the nine months ended 31 December 2008, the Group has successfully transformed and diversified its business portfolio from furniture production into auto beauty and repairs operations services and integrated coke production.

Turnover from the continuing and discontinued operations of the Group for the three months and nine months ended 31 December 2008 amounted to approximately HK\$11.9 million and HK\$39.1 million respectively (2007: HK\$70.8 million and HK\$288.4 million), representing a decrease of approximately 83.2% and 86.4% respectively as compared to the same period last year. The decrease in turnover was the result of the sale of the furniture business, which consequentially increased the bank and cash balance by HK\$56.7 million as at 31 October 2007.

Correspondingly, gross profit of the Group for the three months and nine months ended 31 December 2008 was approximately HK\$8.5 million and HK\$28.4 million respectively (2007: HK\$10.7 million and HK\$17.4 million). The gross profit margin decrease and increase to 20.6% and 63.2% respectively.

For the three months and nine months ended 31 December 2008, the total administrative and other operating expenses amounted to approximately HK\$11.4 million and HK\$37.9 million respectively (2007: HK\$10.3 million and HK\$18.8 million). These expenses included the recognition of share options issued on 24 June 2008 to the officers of the Group as share payment (independently valued at HK\$3.47 million) in accordance with HKFRS 2 (Share Based Payment). These share payments do not represent cash outflows; however, they had to be charged against the Group's earnings.

For the three months and nine months ended 31 December 2008, the total finance costs amounted to approximately HK\$8.8 million and HK\$19.6 million respectively (2007: HK\$15,000 and HK\$35,000), mainly included an accrued bond interest payable on the Convertible Bonds amounted approximately to HK\$8.8 million and HK\$19.6 million respectively and are payable on 10 June 2009.

As the result of the Business Combination, the Group incorporated the effect of noncash revenue of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of its subsidiaries amounted to approximately HK\$61.2 million in accordance with HKFRS 3 (Business Combination).

During the period, as there was a significant decrease in the share price of the Company, the fair value of derivative liability of the convertible notes increased accordingly, resulting in a fair value gain of HK\$53.8 million which was credited in the consolidated income statement.

Net profit attributable to equity holders of the Company for the three months and nine months ended 31 December 2008 amounted to approximately HK\$(11.6) million and HK\$85.5 million respectively (2007: HK\$63.7 million and HK\$73.1 million). The results incorporated the effect of noncash charges included the stock option payments, an accrued bond interest payable on the Convertible Bonds, the excess value of the Business Combination and fair value gain on derivative liability of convertible bonds.

LIQUIDITY AND FINANCIAL RESOURCE

As at 31 December 2008, the Group has bank and cash balance of approximately HK\$34.2 million (as at 31 March 2008: HK\$119.2 million).

To satisfy the Acquisition, on 10 June 2008, the Group issued: (1) HK\$170 million of Consideration Convertible Bonds and HK\$600 million of Placing Convertible Bonds (collectively the "Convertible Bonds") and (2) 230 million of Consideration Shares (at HK\$0.8 per share to raise a net capital fund of HK\$184 million). The Convertible Bonds are unsecured, carry a maturity date of 10 June 2013 and bear interest at the rate of 1% per annum.

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.60 as at 31 December 2008 (as at 31 March 2008: 0.08).

CAPITAL STRUCTURE

On 10 June 2008, the Group increased its share capital from 540 million shares to 770 million shares as a result of the issuance of 230 million of Consideration Shares to satisfy the Acquisition. Total equity attributable to equity holders of the Group as at 31 December 2008 was approximately HK\$466 million (as at 31 March 2008: HK\$128 million).

FOREIGN EXCHANGE EXPOSURE

The Group had minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in Hong Kong dollars ("HK\$"). Going forward, the group may seek to change its functional currency from HK\$ to Renminbi ("RMB") to reflect the RMB denomination of the Group's significant assets and incomes in PRC from the integrated coke producing business. The Group will formulate a foreign currency hedging policy to provide a reasonable margin of safety in our exposure in RMB transactions, assets and liabilities.

OTHER INFORMATION

I. DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2008, the interests and short positions of the Directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of underlying Shares (Note)	Approximate percentage of the total issued Shares as at 31 December 2008
Yeap Soon P, Jonathan	Beneficial owner	–	7,700,000	1.00%
Tse Chun Sing (Resigned as director on 7/11/2008)	Beneficial owner	–	5,400,000	0.70%
Wu Kam Hung	Beneficial owner	–	5,400,000	0.70%
Liew Swee Yean	Beneficial owner	–	540,000	0.07%
Siu Siu Ling, Robert	Beneficial owner	–	540,000	0.07%
Wong Yun Kuen	Beneficial owner	–	540,000	0.07%
Yang Geyan	Beneficial owner	9,800,000	–	1.27%

Note: The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the Share Options granted by the Company to the above mentioned directors pursuant to the share option scheme of the Company. The above Share Options represent personal interest held by directors.

Details of the Share Options granted to the above Directors are set out in the section headed "SHARE OPTIONS".

Save as disclosed above, none of the Directors or the chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors.

2. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:—

Name of Shareholders	Capacity	Nature of interest	Number of Shares	Long Position		Approximate percentage of the total issued Shares as at 31 December 2008
				Number of underlying Shares	Total Interest	
Plowright Investments Limited	Beneficial owner	Beneficial interest	80,000,000	–	80,000,000 (Note 1)	10.39%
Harmony Asset Limited	Interest of a controlled corporation	Corporate interest	80,000,000	–	80,000,000 (Note 1)	10.39%
Excel Formation Limited	Beneficial owner	Beneficial interest	53,444,000	–	53,444,000 (Note 2)	6.94%
Cheng Yu Tung	Interest of a controlled corporation	Corporate interest	53,444,000	–	53,444,000 (Note 2)	6.94%
Gold Master Business Limited	Beneficial owner	Beneficial interest	81,000,000	–	81,000,000 (Note 3)	10.52%
Wong Wai Keung Dennis	Interest of a controlled corporation	Corporate interest	81,000,000	–	81,000,000 (Note 3)	10.52%
Glimmer Stone Investments Limited ("Glimmer")	Beneficial owner/Interest of a controlled corporation	Beneficial interest/ Corporate interest	110,727,250	631,000,000	741,727,250 (Note 4)	96.33%
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/Interest of a controlled corporation	Beneficial interest/ Corporate interest	230,000,000	791,000,000	1,021,000,000 (Note 5)	132.59%
Oriental Patron Financial Services Group Limited ("OPFSG")	Interest of a controlled corporation	Corporate interest	170,000,000	830,000,000	1,000,000,000 (Note 6)	129.87%
Oriental Patron Financial Group Limited ("OPFG")	Interest of a controlled corporation	Corporate interest	170,000,000	830,000,000	1,000,000,000 (Note 6)	129.87%
Zhang Gaobo	Interest of a controlled corporation	Corporate interest	170,000,000	830,000,000	1,000,000,000 (Note 6)	129.87%
Zhang Zhi Ping	Interest of a controlled corporation	Corporate interest	170,000,000	830,000,000	1,000,000,000 (Note 6)	129.87%

Notes:

1. Plowright Investments Limited is a wholly-owned subsidiary of Harmony Asset Limited, the shares of which are listed on the main board of the Stock Exchange. Harmony Asset Limited is deemed to be interested in the 80,000,000 Shares held by Plowright Investments Limited under the SFO.
2. Excel Formation Limited is wholly-owned by Cheng Yu Tung, who is deemed to be interested in 53,444,000 Shares held by Excel Formation Limited under the SFO.
3. Gold Master Business Limited is wholly-owned by Wong Wai Keung, Dennis, who is deemed to be interested in 81,000,000 Shares held by Gold Master Business Limited under the SFO.
4. These 741,727,250 Shares and underlying Shares represent the aggregate of: (i) the 110,727,250 Shares held by Grand Pacific Source Limited ("Grand Pacific"), a wholly-owned subsidiary of Glimmer; and (ii) 170,000,000 underlying Shares held by Grand Pacific and 461,000,000 underlying Shares held by Glimmer. Accordingly, Glimmer is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.
5. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific, which was a wholly-owned subsidiary of GEM Global; and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

The Directors are unable to ascertain the interests of GEM Global as at 31 December 2008 and confirm whether the interests of GEM Global as at 31 December 2008 have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company's announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK\$540 Million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company's announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer from GEM Global on the same day, and 60 million Consideration Shares were transferred from Grand Pacific to GEM Global as consideration for such acquisition. Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of the acquisition of Grand Pacific by Glimmer mentioned above. The Company has not received any updated corporate substantial notice of GEM Global after 3 April 2008. However, the Directors cannot exclude the possibility that GEM Global may have acquired or disposed of any interests in shares or underlying shares of the Company after the above announcements.

The Directors are also unable to ascertain the shareholding of GEM Global from the register of members of the Company as the information contained therein may not reflect the actual beneficial shareholdings of the shareholders (i.e. the registered shareholders may be trustee or holding some shares of the Company on behalf of the others and this kind of interest is not required to be disclosed under the SFO).

6. These 1,000,000,000 Shares and underlying Shares represent the aggregate of: (i) the 110,727,250 Shares held by Grand Pacific, a wholly-owned subsidiary of Glimmer; and 59,272,750 Shares held by Pacific Top Holding Limited (“Pacific Top”) a wholly-owned subsidiary of OPFSG; and (ii) 170,000,000 underlying Shares held by Grand Pacific, 461,000,000 underlying Shares held by Glimmer, a company which is held 43.8% by OPFSG, and 199,000,000 underlying Shares held by Pacific Top. OPFSG is a 95% subsidiary of OPFG. Mr. Zhang Gaobo and Mr. Zhang Zhi Ping are respectively interested in 49% and 51% of OPFG. Accordingly, OPFSG, OPFG, Mr. Zhang Gaobo and Mr. Zhang Zhi Ping are deemed to be interested in those Shares and underlying Shares held by Grand Pacific, Glimmer and Pacific Top under the SFO.
7. The long positions in underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the Convertible Bonds issued by the Company on 10 June 2008.

The Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 & 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

3. SHARE OPTIONS

A share option scheme (the “Scheme”) was adopted by the shareholders of the Company by way of written resolutions passed on 9 December 2003. The principal purpose of the Scheme is to enable the Group to grant options to subscribe for Shares to the eligible person as incentives or rewards for their contributions to the Group.

On 24 June 2008, as approved by the Board of Directors, a total of 12.7 million Options have been granted to a director and a staff to subscribe for a total of 12.7 million shares of the Company at an exercise price of HK\$0.78 per share. No share options have been exercised since 19 February 2008 and up to the date of this announcement. As at 31 December 2008, a total of 19.7 million Shares, representing 2.55% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Details of the share options granted under the Scheme during the period are as follows:–

	Date of Grant	Exercise Period	Outstanding as at 1/1/2008	Grant during the period	Number of Options			Outstanding as at 31/12/2008	Exercise Price (HK\$)	Closing Price of Shares immediately before the date of grant (HK\$)
					Exercise during the period	Forfeiture during the period	Reallocation during the period			
Directors										
Tse Chun Sing (Resigned as director on 7/11/2008)	19/2/2008	19/2/2008-18/2/2011	5,400,000	-	-	-	(5,400,000)	-	0.69	
Wu Kam Hung	19/2/2008	19/2/2008-18/2/2011	5,400,000	-	-	-	-	5,400,000	0.69	
Liew Swee Yean	19/2/2008	19/2/2008-18/2/2011	540,000	-	-	-	-	540,000	0.69	
Siu Siu Ling, Robert	19/2/2008	19/2/2008-18/2/2011	540,000	-	-	-	-	540,000	0.69	
Wong Yun Kuen	19/2/2008	19/2/2008-18/2/2011	540,000	-	-	-	-	540,000	0.69	
Yeap Soon P, Jonathan	24/6/2008	24/6/2008-23/6/2011	-	7,700,000	-	-	-	7,700,000	0.78	0.81
		Sub-total	12,420,000	7,700,000	-	-	-	14,720,000		
Employees in aggregate										
	19/2/2008	19/2/2008-18/2/2011	2,700,000	-	-	(30,000)	-	2,670,000	0.69	
	24/6/2008	24/6/2008-23/6/2011	-	5,000,000	-	-	-	5,000,000	0.78	0.81
Other participants in aggregate										
	19/2/2008	19/2/2008-18/2/2011	6,480,000	-	-	-	5,400,000	11,880,000	0.69	
		Grand-total	21,600,000	12,700,000	-	(30,000)	-	34,270,000		

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

5. AUDIT COMMITTEE

The Company has established an audit committee on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides an important link between the Board and the Company's auditors in those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit, internal control and risk evaluation. The audit committee comprises three independent non-executive Directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen, and Mr. Liew Swee Yean is the chairman of the audit committee.

The unaudited quarterly results for the three months and nine months ended 31 December 2008 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

6. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the nine months ended 31 December 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the nine months ended 31 December 2008.

7. CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months ended 31 December 2008. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealings under the GEM Listing Rules and its code of conduct regarding securities transactions by Directors.

8. CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the three months and nine months ended 31 December 2008.

By order of the Board

Chan Nap Kee, Joseph

Chairman

Hong Kong, 9 February 2009

As at the date of this report, the executive directors of the Company are Mr. Chan Nap Kee, Joseph, Mr. Yeap Soon P, Jonathan, Dr. Chow Pok Yu, Augustine, Mr. Wu Kam Hung, Mr. Yang Geyan and Mr. Yang Yongcheng. The independent non-executive directors of the Company are Mr. Anderson Brian Ralph, Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen.