

## Directors' Report

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries during the financial year consist of operation of coal mine and sales of coal in Henan Province, the PRC and the generation and sale of electricity through the operation of a coal-fired electricity power plant (the "Power Plant"), located in Fujian Province, the PRC.

Upon completion of acquisition of the coal mine business in October 2006, the Group is now concentrating on coal mine business. The business of Power Plant will be disposed in coming year as disclosed in our recent announcement dated 13 February 2007.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 86.

The Directors do not recommend the payment of any dividend in respect of the year.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment are set out in note 16 to the financial statements.

### SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's share capital and share option scheme during the year, together with the reasons therefore, are set out in notes 35 and 36, respectively, to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 and 4.

### PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

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### DISTRIBUTABLE RESERVES

At 31 December 2006, the Company has no reserve available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account, in the amount of approximately HK\$156.8 million at 31 December 2006, may be distributed in the form of fully paid bonus shares.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers for continuing operation accounted for approximately 90.7% of the total revenue of continuing operation for the year. Purchases of coal from the Group's five largest suppliers for continuing operation accounted for 91.9% of the total purchases of continuing operation for the year and purchases from the largest supplier included therein amounted to 67.4%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

### DIRECTORS

The Directors of the Company during the year were as follows:

#### Executive Directors:

Mr. Chan Chun Keung	
Mr. Bao Hongkai	(Appointed on 24 October 2006)
Mrs. Judy Leissner	
Mr. Chan Kin	
Mr. Wu Jiahong	(Appointed on 24 October 2006)
Mr. Cheng Koon Cheung	(Appointed on 16 May 2006)
Mr. Chau On Tai Yuen	(Resigned on 20 November 2006)
Mr. Chan Lai Yin, Tommy	(Resigned on 16 May 2006)
Mr. Li Wan Luk	(Resigned on 14 March 2007)
Mr. Lam Chung Chak	(Resigned on 14 March 2007)

#### Independent Non-Executive Directors:

Mr. Chan Kin Sang	
Mr. Ng Wing Hang, Patrick	
Mr. Choi Man Chau, Michael	(Appointed on 16 August 2006)
Mr. Wong Wai Kong	(Resigned on 16 May 2006)

In accordance with clause 111 of the Company's Bye-laws, Mr. Chan Kin, Mr. Chan Kin Sang and Mr. Ng Wing Hang, Patrick, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

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### DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 8 to 10.

### DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 43 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (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 (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (a) Long positions in the ordinary shares of the Company

Name of Director	Number of shares held, capacity and nature of interest	Percentage of the Company's issued share capital
	Through controlled corporation	
Mr. Chan Chun Keung ("Mr. Chan")	105,642,250*	19.53%

\* Such Shares were held through Century Enterprise Investments Inc., a company incorporated in the British Virgin Islands which is beneficially owned as to 79.5% by Mr. Chan and as to 20.5% by City Corner Limited ("City Corner") respectively. City Corner is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Chan.

The interests of the directors in the share option scheme of the Company are separately disclosed in note 36 to the financial statements.

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**DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS** (Continued)**(b) Long positions in the shares of associated corporations of the Company**

Name of Directors	Name of subsidiaries	Number of shares held, capacity and nature of interest			
		Shares	Number of shares held/ Amount of capital paid	Capacity and nature of interest	Percentage of the equity interest
Mr. Chan	Concade Assets Limited**	Ordinary	4,787,200 ordinary shares	Through controlled corporation	40%
Mr. Bao Hongkai	登封市金豐工貿 有限責任公司 (Jinfeng Industrial and Trading Company Limited) ("Jinfeng")	N/A	RMB1,600,000	Beneficial owner	10%

\*\* Concade Assets Limited is owned as to 8% by For Good Investments Limited ("For Good"), 16% by Splendour Investments Limited ("Splendour") and 16% by Halligan Profits Limited ("Halligan"). For Good, Splendour and Halligan were incorporated in the BVI and beneficially owned by Mr. Chan.

Save as disclosed above, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (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 (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange as at 31 December 2006.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Company's Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to the Directors or chief executive of the Company, as at 31 December 2006, the persons, other than the Directors or chief executive of the Company, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, were as follows:

#### Long positions in the Shares

Name of Shareholders	Capacity	Number of Shares	Approximate percentage of shareholding
Century Enterprise Investments Inc. <sup>(1)</sup>	Beneficial owner	105,642,250	19.53%
Dragon Rich Resources Limited <sup>(2)</sup>	Beneficial owner	90,000,000	16.64%
Hopeview Consultants Limited <sup>(3)</sup>	Beneficial owner	75,000,000	13.87%
Mr. Sun Zhi Ming	Beneficial owner	59,114,300	10.93%

#### Notes:

- (1) Century Enterprise Investments Inc. is beneficially owned as to approximately 79.5% by Mr. Chan and as to approximately 20.5% by City Corner respectively. City Corner is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Chan.
- (2) Dragon Rich Resources Limited is beneficially owned as to 30% by Mr. Bao Hongkai, as to 10% by Mr. Wu Jiahong, as to 20% by Mr. Zhang Jixian, as to 20% by Mr. Ren Zhiying, as to 10% by Mr. Xu Lidi and as to 10% by Mr. Wang Xinkai respectively. Mr. Bao Hongkai and Mr. Wu Jiahong are the Executive Directors. Mr. Xu Lidi is a senior management of the Company.
- (3) Hopeview Consultants Limited is beneficially and wholly-owned by Mr. Lin Wensheng.

Save as disclosed above, the Directors or the chief executive of the Company were not aware that there was any party (not being Directors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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### **PENSION SCHEME AND COSTS**

Details of the Group's pension scheme and the employer's pension costs charged to the income statement for the year are set out in notes 3 and 8 to the financial statements, respectively.

In the opinion of the Directors, the Group had no significant obligations for long service payments to its employee pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2006.

### **CONNECTED TRANSACTIONS**

Details of the connected transactions are included in note 43 to the financial statements.

### **AUDITORS**

Grant Thornton retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

For and on behalf of the Board

**Cheng Koon Cheung**

*Executive Director*

Hong Kong  
2 April 2007