Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

Everbest Energy Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is in the People's Republic of China, except Hong Kong ("PRC"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (the "Group") are the production and sale of coal in the PRC. The Group was also engaged in the generation and sale of electricity through the operation of a coal-fired electricity power plant (the "Power Plant Operation"), which the Group has decided to discontinue in the current year (see note 10). The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

On 14 March 2007, the Company announced that the name of the Company has been changed from "Everbest Century Holdings Limited 恒發世紀控股有限公司" to "Everbest Energy Holdings Limited 恒發能源控股有限公司" with effect from 9 March 2007.

The financial statements on pages 24 to 86 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2006 were approved for issue by the board of directors on 2 April 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures. The specific transitional provisions contained in some of these new or amended HKFRSs have been considered.

The adoption of these new and amended HKFRSs did not result in any significant changes in the Company's accounting policies.

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

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

Notes to the Financial Statements

For the year ended 31 December 2006

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

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

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries (Continued)

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

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

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

3.4 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, investment in jointly-controlled entities is initially recognised at cost and subsequently accounted for using the equity method.

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Joint ventures (Continued)

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

Unrealised gains on transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the jointly-controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the jointly-controlled entity's accounting policies to those of the Group when the jointly-controlled entity's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investments in jointly-controlled entities are stated at cost less any impairment losses. The results of jointly-controlled entity are accounted for by the Company on the basis of dividends received and receivable.

3.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong Dollars. Assets and liabilities have been translated into Hong Kong Dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong Dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period, provided that the exchange rate do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong Dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

– Revenue from sale of electricity is recognised on consumption recorded by meters read during the year and terms agreed with the relevant PRC governmental electricity supply bureau.

– Revenue from sale of coal is recognised upon transfer of significant risks and rewards of ownership to the customers.

– Interest income is recognised on a time proportion basis using the effective interest rate method.

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

3.8 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Goodwill (Continued)

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

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.9 Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives of two years.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3.13. Amortisation commences when the intangible assets are available for use.

3.10 Prepaid lease payments

Prepaid lease payments are up-front payments to acquire the land use rights. Amortisation is calculated on a straight-line basis of 10 years, which is determined by the directors of the Company according to the best estimate of the entire lives of the mining rights associated to the land.

3.11 Mining rights

Mining rights are amortised on a units-of-production method utilising only proved and probable coal reserves as the depletion base.

3.12 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	The shorter of the lease terms and 4% to 5% per annum
Plant and machineries	4% to 20% per annum
Mining related machinery and equipment	10% to 20% per annum
Furniture, fixtures, equipment	10% to 20% per annum
Leasehold improvement	The shorter of the lease terms and 10% to 20% per annum
Motor vehicles	10% to 20% per annum

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3.13 Impairment of assets

Goodwill arising on an acquisition of subsidiaries, other intangible assets, mining rights, prepaid lease payments, property, plant and equipment and interest in subsidiaries and jointly-controlled entities are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Impairment of assets (Continued)

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.14 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of asses held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statements as an integral part of the aggregate net lease payment made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Assets (and disposal groups), other than financial assets, classified as held for sale are measured at the lower of the assets' (disposed group's) previous carrying amount and fair value less costs to sell.

3.16 Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Financial assets (Continued)

(i) Financial assets at fair value through profit or loss (Continued)

- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

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

If, in 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 to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

3.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories comprise coal, spare parts and consumable stores for trading and own consumption purposes. Costs of coal and diesel are stated at weighted average cost whereas costs of spare parts and consumable stores are stated at first-in first-out or weighted average basis as appropriate, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. No deferred taxes are recognised on temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

3.19 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits with original maturities of three months or less.

3.20 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Employee benefits

(i) Retirement benefit obligations

The Group contributes to a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance which is available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to income statement represents contributions payable by the Group to the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government.

The subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(ii) Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

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

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

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in equity will be transferred to retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Financial liabilities

The Group's financial liabilities include bank loans, account payables, other payables and accruals, amount due to a director, loans from minority shareholders, convertible bonds and promissory notes. They are included in balance sheet line items as "bank loans" under current and non-current liabilities, "account payables", "other payables and accruals", "amount due to a director" under current liabilities and "loans from minority shareholders", "convertible bonds" and "promissory notes" under non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

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

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

Borrowings

Borrowings, which include bank loans, and loans from minority shareholders, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Account and other payables

Account payables, other payables and accruals and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Financial liabilities (Continued)

Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bond equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Financial liabilities (Continued)

Convertible bonds (Continued)

(ii) Other convertible bonds (Continued)

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

Promissory notes

Promissory notes are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.23 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of property, plant and equipment, prepaid lease payments, interests in jointly-controlled entities, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, prepaid lease payments, mining rights and other intangible assets.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Related parties

Parties are considered to be related to if:

(i) directly, or indirectly through one or more intermediaries, the Group:

- controls, is controlled by, or is under common control with, the entity;
- has an interest in the entity that gives it significant influence over the entity;
- has joint control over the entity;

(ii) the party is an associate;

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

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

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3.25 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimated and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.8. The recoverable amounts of cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(ii) Depreciation

The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of 5 to 25 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(iii) Amortisation of mining rights

The Group amortises its mining rights on a units-of-production method, utilising only proved and probable coal reserves as the depletion base. The estimated coal reserves reflect the directors' estimation on the Group's intention to derive future economic benefits from the mining rights.

(iv) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(v) Convertible bonds and promissory notes

The fair values of convertible bonds and promissory notes are estimated by independent professional valuer based on actual transactions of the financial instruments in the market or transactions of similar financial instruments which generally represent the best estimate of the market value.

(vi) Share-based payment

The fair value of options granted are estimated by independent professional valuer based on the various assumptions of volatility, life of options, dividend yield and annual risk-free rate, excluding the impact of non-market vesting conditions, which generally represent the best estimate of the fair value of the option at the date of granting the options.

(vii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassess the impairment of receivables at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2006

5. REVENUE AND OTHER INCOME

Turnover represents the revenue arising from the Group's principal activities.

Turnover and other income recognised during the year are as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue/Turnover						
Sale of coal	**102,599**	–	**–**	–	**102,599**	–
Sale of electricity	**–**	–	**159,936**	186,535	**159,936**	186,535
	102,599	–	**159,936**	186,535	**262,535**	186,535
Other income						
Interest income*	**1,672**	–	**1,099**	141	**2,771**	141
Gain on disposal of property, plant and equipment	**–**	–	**–**	36	**–**	36
Others	**94**	978	**990**	802	**1,084**	1,780
	1,766	978	**2,089**	979	**3,855**	1,957

* During the year ended 31 December 2006, approximately HK$1.6 million (2005: Nil) included in interest income of continuing operations represented interest received or receivable arising from other receivables of approximately HK$64.4 million, which were lent to independent third parties and bore interest at fixed rates ranging from 5.58% to 12.83% per annum.

6. SEGMENT INFORMATION

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

(i) the production and sale of coal segment involves the sale of coal;

(ii) the generation and sale of electricity segment involves the sale of electricity; and

(iii) the "others" segment comprises, principally, the Group's trading and holding of equity investments.

There was no inter-segment sale and transfer during the year (2005: Nil).

During the financial year, the Board of Directors resolved to dispose of the Power Plant Operation (see note 10).

Notes to the Financial Statements

For the year ended 31 December 2006

6. SEGMENT INFORMATION (Continued)

(a) Business segments

	Continuing operations						Discontinued operations			
	Production and sale of coal		Others		Total		Generation and sale of electricity		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to customers	**102,599**	–	**–**	–	**102,599**	–	**159,936**	186,535	**262,535**	186,535
Segment results	**44,740**	–	**(10,453)**	(7,182)	**34,287**	(7,182)	**3,487**	(43,519)	**37,774**	(50,701)
(Loss)/Gain on disposal of subsidiaries	**–**	–	**(2,336)**	(5)	**(2,336)**	(5)	**27,757**	–	**25,421**	(5)
Operating profit/(loss)	**44,740**	–	**(12,789)**	(7,187)	**31,951**	(7,187)	**31,244**	(43,519)	**63,195**	(50,706)
Finance costs	**(1,015)**	–	**(5,246)**	(538)	**(6,261)**	(538)	**(7,892)**	(7,544)	**(14,153)**	(8,082)
Profit/(Loss) before income tax	**43,725**	–	**(18,035)**	(7,725)	**25,690**	(7,725)	**23,352**	(51,063)	**49,042**	(58,788)
Income tax expenses	**(16,240)**	–	**–**	–	**(16,240)**	–	**(892)**	(439)	**(17,132)**	(439)
	27,485	–	**(18,035)**	(7,725)	**9,450**	(7,725)	**22,460**	(51,502)	**31,910**	(59,227)
Loss on remeasurement to fair value less costs to sell	**–**	–	**–**	–	**–**	–	**(111,044)**	–	**(111,044)**	–
Profit/(Loss) for the year	**27,485**	–	**(18,035)**	(7,725)	**9,450**	(7,725)	**(88,584)**	(51,502)	**(79,134)**	(59,227)
Segment assets	**597,391**	–	**11,649**	23,479	**609,040**	23,479	**298,985**	382,778	**908,025**	406,257
Interests in jointly-controlled entities	**–**	–	**–**	–	**–**	–	**–**	71,511	**–**	71,511
Total assets	**597,391**	–	**11,649**	23,479	**609,040**	23,479	**298,985**	454,289	**908,025**	477,768
Segment liabilities	**111,688**	–	**289,601**	21,533	**401,289**	21,533	**168,110**	145,610	**569,399**	167,143
Unallocated liabilities	**–**	–	**–**	–	**46,000**	–	**–**	–	**46,000**	–
Total liabilities	**111,688**	–	**289,601**	21,533	**447,289**	21,533	**168,110**	145,610	**615,399**	167,143
Depreciation	**228**	–	**384**	486	**612**	486	**21,688**	20,970	**22,300**	21,456
Amortisation of prepaid lease payments	**42**	–	**–**	–	**42**	–	**483**	465	**525**	465
Amortisation of mining rights	**251**	–	**–**	–	**251**	–	**–**	–	**251**	–
Capital expenditure – addition of property, plant and equipment, prepaid lease payments, mining rights and other intangible assets	**2,163**	–	**17**	310	**2,180**	310	**1,820**	167	**4,000**	477
Impairment of goodwill	**–**	–	**–**	–	**–**	–	**–**	59,000	**–**	59,000

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For the year ended 31 December 2006

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

A geographical analysis of the Group's revenue, certain asset and expenditure information is not presented as the Group's revenue, results and assets in geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

7. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest charge on bank loans						
– wholly repayable within five years	**1,082**	–	**7,892**	7,544	**8,974**	7,544
– wholly repayable after five years	**–**	538	**–**	–	**–**	538
Effective interest expense on convertible bonds	**283**	–	**–**	–	**283**	–
Effective interest expense on promissory notes	**4,896**	–	**–**	–	**4,896**	–
	6,261	538	**7,892**	7,544	**14,153**	8,082

8. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax is arrived at after charging:

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cost of inventories sold	**52,784**	–	**143,147**	161,539	**195,931**	161,539
Auditors' remuneration	**600**	400	**–**	–	**600**	400
Depreciation of owned assets*	**612**	486	**21,688**	20,970	**22,300**	21,456
Operating lease charges on land and buildings	**180**	–	**573**	625	**753**	625
Amortisation of prepaid lease payments	**42**	–	**483**	465	**525**	465
Amortisation of mining rights	**251**	–	**–**	–	**251**	–
Employee benefit expenses, including directors' remuneration and retirement benefit scheme contributions *(note 13)*	**19,894**	250	**14,500**	14,467	**34,394**	14,717
Loss on remeasurement to fair value less costs to sell	**–**	–	**111,044**	–	**111,044**	–
Loss on disposals of property, plant and equipment	**18**	–	**85**	–	**103**	–
Impairment loss on goodwill *(note 20)*	**–**	–	**–**	59,000	**–**	59,000
Fair value loss on financial assets at fair value through profit or loss	**–**	–	**–**	934	**–**	934

* Depreciation of approximately HK$14.8 million (2005: approximately HK$19.4 million) has been included in cost of sales and approximately HK$7.5 million (2005: approximately HK$2.0 million) in administrative expenses.

Notes to the Financial Statements

For the year ended 31 December 2006

9. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil).

Pursuant to a circular of Min Gao Shui Fa (2002) Number 88（閩國税法【2002】88號）issued by the Fujian Provincial Government on 10 April 2002, the estimated assessable profits of Longyan Hengfa Electric Industry Co. Ltd ("Longyan Hengfa") 龍岩恒發電業有限公司arising in the PRC starting from 1 January 2003 were subjected to an applicable corporate income tax rate of 24%. According to a circular of Min Guo Shui Xian (2004) Number 47（閩國税函【2004】47號）issued by the Fujian Office of National Tax Bureau on 3 February 2004, a preferential corporate income tax rate of 15% has been granted to Longyan Hengfa starting from February 2004.

Income tax arising from other regions in the PRC is calculated at 33% (2005: Nil) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC.

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax						
– PRC income tax	**16,240**	–	**892**	439	**17,132**	439

Reconciliation between tax expense and profit/(loss) before income tax at applicable tax rates is as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit/(Loss) before income tax		
Continuing operations	**25,690**	(7,725)
Discontinued operations	**(87,692)**	(51,063)
	(62,002)	(58,788)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profit/(loss) in the tax jurisdictions	**(4,074)**	(12,351)
Tax effect of non-taxable income	**(5,375)**	(239)
Tax effect of non-deductible expenses	**22,905**	10,621
Tax losses not recognised	**3,676**	2,408
Income tax expense	**17,132**	439

10. DISCONTINUED OPERATIONS

On 15 December 2006, the Board of Directors of the Company resolved to dispose of Royce Group Limited ("RGL"), a wholly owned subsidiary of the Company. RGL is an investment holding company which indirectly held 53.1% equity interest in Longyan Hengfa, which principally engaged in management and the Power Plant Operation (Details refer to Note 45(ii)). The Board of Directors considers that the policy of the PRC government in respect of the gradual closing of small scale coal-fired electricity power plants in the PRC, together with the increasing emphasis on environmental protection by the public and private sectors in the PRC, would have material adverse impacts on the prospects of the Group's power plant business in the PRC.

An analysis of the results and cash flows of the discontinued operations included in the consolidated income statement and the consolidated cash flow statement is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue	**159,936**	186,535
Other revenue	**2,089**	979
Expenses	**(166,430)**	(238,577)
Gain recognised on disposal of subsidiaries *(note 39(a))*	**27,757**	–
Income tax expenses	**(892)**	(439)
	22,460	(51,502)
Loss on remeasurement to fair value less costs to sell	**(111,044)**	–
Loss for the year from discontinued operations	**(88,584)**	(51,502)
Operating cash flows	**15,732**	16,939
Investing cash flows	**(806)**	1,298
Financing cash flows	**(2,916)**	(26,078)
Total cash flows	**12,010**	(7,841)

11. LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of approximately HK$82.7 million (2005: approximately HK$63.0 million), a loss of approximately HK$151.2 million (2005: approximately HK$1.4 million) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 December 2006

12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Profit/(Loss)		
Loss for the year attributable to the equity holders of the Company for the purpose of basic loss per share	**(82,683)**	(62,996)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**283**	–
Loss for the year attributable to the equity holders of the Company for the purpose of diluted loss per share	**(82,400)**	(62,996)

	2006	2005
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**399,246**	375,863
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**743**	–
Convertible bonds	**10,803**	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**410,792**	375,863

No diluted loss per share attributable to the equity holders of the Company is presented for the years ended 31 December 2005 and 2006 as the potential ordinary shares have anti-dilutive effect.

12. (LOSS)/EARNINGS PER SHARE (Continued)

From continuing operations

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to the equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Loss for the year attributable to the equity holders of the Company for the purpose of basic loss per share	**(82,683)**	(62,996)
Loss for the year from discontinued operations	**(88,584)**	(51,502)
Less: Profit for the year attributable to minority interests from discontinued operations	**304**	1,176
Loss for the year attributable to the equity holders of the Company from discontinued operations	**(88,888)**	(52,678)
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per share from continuing operations	**6,205**	(10,318)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**283**	–
Profit/(Loss) for the purpose of diluted earnings/(loss) per share attributable to the equity holders of the Company from continuing operations	**6,488**	(10,318)

In the calculation of the diluted earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2006, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity holders of the Company from continuing operations and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2006 is based on the profit attributable to the equity holders of the Company from continuing operations of approximately HK$6.2 million and on the weighted average of 399,989,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares used in basic earnings per share calculation and adjusted for the effect of share options issued of 743,000.

No diluted loss per share attributable to the equity holders of the Company from continuing operations is presented for the year ended 31 December 2005 as the outstanding share options were anti-dilutive.

From discontinued operations

Basic loss per share attributable to the equity holders of the Company for the discontinued operations is HK22.26 cents per share (2005: HK14.02 cents per share), based on the loss for the year attributable to the equity holders of the Company from discontinued operations of approximately HK$88.9 million (2005: approximately HK$52.7 million) and the denominators detailed above. No diluted loss per share attributable to the equity holders of the Company from discontinued operations is presented for the years ended 31 December 2005 and 2006 as the potential ordinary shares have anti-dilutive impact.

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13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Wages and salaries	**14,668**	250	**14,411**	14,351	**29,079**	14,601
Share options granted to directors and employees	**5,216**	–	**–**	–	**5,216**	–
Retirement benefit scheme contribution – defined contribution plans	**10**	–	**89**	116	**99**	116
	19,894	250	**14,500**	14,467	**34,394**	14,717

14. DIRECTORS' REMUNERATION

The emoluments paid or payable to the directors were as follows:

	Fees	Salaries and allowances	Share based payment	Bonus	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006						
Executive Directors						
Chan Chun Keung ("Mr. Chan")	–	220	–	–	10	230
Chau On Ta Yuen*	–	25	–	–	1	26
Judy Leissner	–	400	–	–	10	410
Lam Chung Chak***	–	35	–	–	2	37
Chan Kin	–	–	–	–	–	–
Li Wan Luk***	6	–	–	–	–	6
Chan Lai Yin Tommy*	–	–	–	–	–	–
Bao Hongkai ("Mr. Bao")**	–	–	525	–	–	525
Wu Jiahong**	–	–	525	–	–	525
Cheng Koon Cheung**	150	–	–	–	–	150
Independent Non-executive Directors						
Chan Kin Sang	80	–	–	–	–	80
Ng Wing Hang, Patrick	80	–	–	–	–	80
Wong Wai Kong*	–	–	–	–	–	–
Choi Man Chau, Michael**	30	–	–	–	–	30
	346	680	1,050	–	23	2,099

14. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries and allowances HK$'000	Share based payment HK$'000	Bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2005						
Executive Directors						
Chan Chun Keung	–	264	–	22	12	298
Chau On Ta Yuen	–	300	–	50	12	362
Judy Leissner	–	480	–	40	12	532
Lam Chung Chak	–	211	–	17	11	239
Chan Kin	–	–	–	–	–	–
Li Wan Luk	6	154	–	–	–	160
Chan Lai Yin Tommy	40	–	–	–	–	40
Independent Non-executive Directors						
Chan Kin Sang	80	–	–	–	–	80
Ng Wing Hang, Patrick	80	–	–	–	–	80
Wong Wai Kong	50	–	–	–	–	50
	256	1,409	–	129	47	1,841

* resigned during the year ended 31 December 2006

** newly appointed during the year ended 31 December 2006

*** resigned on 14 March 2007

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

During the year ended 31 December 2006, share options were granted to the directors in respect of their services to the Group and further details of which were set out in note 36 to the financial statements.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

Notes to the Financial Statements

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15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included four (2005: three) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments payable to the remaining one (2005: two) individual during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**303**	706
Retirement benefit scheme contributions	**10**	23
	313	729

The emoluments fell within the following bands:

	2006	2005
Emolument bands		
Nil-HK$1,000,000	**1**	2

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

No share options have been granted to the remaining one (2005: two) highest paid individual of the Group to subscribe for ordinary shares of the Company for the year (2005: Nil).

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For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings HK$'000	Plant and machineries HK$'000	Mining related machinery and equipment HK$'000	Furniture, fixtures, equipment and leasehold improvement HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005						
Cost	106,536	201,570	–	1,463	1,761	311,330
Accumulated depreciation	(2,383)	(7,787)	–	(487)	(261)	(10,918)
Net book value	104,153	193,783	–	976	1,500	300,412
Year ended 31 December 2005						
Opening net book value	104,153	193,783	–	976	1,500	300,412
Exchange difference	3,003	5,028	–	19	–	8,050
Additions	–	50	–	117	310	477
Disposal	–	–	–	(50)	(253)	(303)
Depreciation	(6,200)	(14,298)	–	(597)	(361)	(21,456)
Closing net book value	100,956	184,563	–	465	1,196	287,180
At 31 December 2005						
Cost	109,608	207,435	–	1,306	1,726	320,075
Accumulated depreciation	(8,652)	(22,872)	–	(841)	(530)	(32,895)
Net book value	100,956	184,563	–	465	1,196	287,180
Year ended 31 December 2006						
Opening net book value	**100,956**	**184,563**	**–**	**465**	**1,196**	**287,180**
Exchange difference	**4,039**	**6,601**	**–**	**12**	**–**	**10,652**
Acquisitions of subsidiaries *(note 38)*	**18,375**	**4,534**	**6,236**	**1,910**	**4,445**	**35,500**
Additions	**–**	**210**	**403**	**2,798**	**529**	**3,940**
Disposal	**–**	**–**	**(54)**	**(84)**	**–**	**(138)**
Reclassified as assets held for sale *(note 27)*	**(98,353)**	**(176,610)**	**–**	**(1,515)**	**–**	**(276,478)**
Depreciation	**(6,716)**	**(14,735)**	**(36)**	**(473)**	**(340)**	**(22,300)**
Disposal of subsidiaries *(note 39)*	**–**	**–**	**–**	**(97)**	**(921)**	**(1,018)**
Closing net book value	**18,301**	**4,563**	**6,549**	**3,016**	**4,909**	**37,338**
At 31 December 2006						
Cost	**18,375**	**4,591**	**6,639**	**3,041**	**4,974**	**37,620**
Accumulated depreciation	**(74)**	**(28)**	**(90)**	**(25)**	**(65)**	**(282)**
Net book value	**18,301**	**4,563**	**6,549**	**3,016**	**4,909**	**37,338**

Certain of the Group's buildings and plant and machineries which had an aggregate net book value at 31 December 2005 of approximately HK$211.5 million were pledged to secure the Group's banking facilities (note 30).

Notes to the Financial Statements

For the year ended 31 December 2006

17. PREPAID LEASE PAYMENTS – GROUP

	2006	2005
	HK$'000	*HK$'000*
Opening net book amount	**6,858**	7,117
Acquisition of subsidiaries *(note 38)*	**1,518**	–
Exchange difference	**275**	206
Reclassified as assets held for sale *(note 27)*	**(6,649)**	–
Amortisation charge for the year	**(525)**	(465)
Closing net book amount	**1,477**	6,858

At 31 December 2006, the prepaid lease payments for leasehold interests in land are held in the PRC on medium-term leases of approximately HK$1.5 million (2005: medium-term and long leases of approximately HK$2.6 million and HK$4.3 million respectively).

At 31 December 2006, the Group was in the process of changing registration of the title certificate of the land use right. Based on the legal opinion obtained from Beijing City Jiayuan Law Firm (北京市嘉源律師事務所), the directors are of the opinion that the Group is entitled to lawfully and validly use the leasehold land during the year.

No leasehold interests in land was pledged against bank loans granted to the Group as at 31 December 2006 (2005: HK$2,587,000) (note 30).

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**397,801**	82,058
Due from subsidiaries	**110,151**	413,021
Less: Provision for impairment	**(57,997)**	(176,724)
Less: Reclassified as assets held for sale *(note 27)*	**(40,393)**	–
	11,761	236,297
Due to subsidiaries	**(40,393)**	(95,523)
Less: Reclassified as liabilities associated with assets held for sale *(note 27)*	**40,393**	–
	–	(95,523)
	409,562	222,832

The amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable in the next twelve months after the balance sheet date.

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For the year ended 31 December 2006

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the principal subsidiaries of the Company at 31 December 2006 were as follows:

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Company	Principal activities
Directly held				
Beat World Limited	Hong Kong	1 share of HK$1 each	100	Management service
Clear Interest Limited ("CIL")	BVI/Hong Kong	200 shares of US$1 each	100	Investment holding
Popular Sky International Limited	BVI/Hong Kong	1 share of US$1 each	100	Investment holding
Huge Leader International Limited	BVI/Hong Kong	1 share of US$1 each	100	Investment holding
Everbest Energy Management Limited	Hong Kong	1 share of HK$1 each	100	Investment holding
Royce Group Limited*	BVI/Hong Kong	1 share of US$1 each	100	Investment holding
Indirectly held				
Concade Assets Limited ("Concade")*	BVI/Hong Kong	11,968,000 shares of US$1 each	59	Investment holding
Everbest Century Limited ("ECL")*	Hong Kong	1,000 ordinary shares of HK$1 each	59	Investment holding
		10,000,000 deferred shares of HK$1 each *(note (i))*	100	

Notes to the Financial Statements

For the year ended 31 December 2006

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Company	Principal activities
Indirectly held				
Longyan Hengfa Electric Industry Company Limited ("Longyan Hengfa") *(note (ii))**	PRC	RMB140,000,000	53.1	Management and operation of a power plant
Royce Properties Limited*	Hong Kong	2 shares of HK$1 each	100	Investment holding
Zhong Yue Energy Development (Shenzhen) Company Limited	PRC	HK$30,000,000	100	Investment holding
Jinfeng Industrial and Trading Company Limited	PRC	RMB16,000,000	90	Production and sale of coal

* These companies were classified under disposal group during the year ended 31 December 2006.

Notes:

(i) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up.

(ii) Longyan Hengfa is a sino-foreign equity joint venture established in the PRC with a term of 25 years commencing on the date of its business licence of 30 December 1993. The Group through its non-wholly owned subsidiary, Concade, held 90% of Longyan Hengfa and the remaining 7% and 3% equity interests in Longyan Hengfa are respectively owned by Longyan Hengfa Power Construction Development Company (龍岩市電力建設發展公司), a state-owned enterprise in the PRC, and a company incorporated in Hong Kong, both of which are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules).

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For the year ended 31 December 2006

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES – GROUP

	2006	2005
	HK$'000	*HK$'000*
Share of net assets of jointly-controlled entities	**–**	–
Loans to jointly-controlled entities	**–**	71,511
	–	71,511

During year ended 31 December 2006, the Group had disposed of its entire interests in the jointly-controlled entities.

During year ended 31 December 2005, the loans to the jointly-controlled entities are unsecured, interest-free and are not repayable in the next twelve months.

20. GOODWILL – GROUP

The net carrying amount of goodwill can be analysed as follows :

	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**20,910**	79,910
Acquisition of subsidiaries *(note 38)*	**268,746**	–
Impairment loss	**–**	(59,000)
Reclassified as assets held for sale *(note 27)*	**(20,910)**	–
Carrying amount at 31 December	**268,746**	20,910
Closing carrying amount		
Gross carrying amount	**268,746**	79,910
Accumulated impairment loss	**–**	(59,000)
Net carrying amount at 31 December	**268,746**	20,910

The goodwill at 31 December 2005 comprises goodwill arising from the acquisitions of Longyan Hengfa, which has been reclassified as assets held for sale during the year ended 31 December 2006. The goodwill at 31 December 2006 comprises goodwill arising from the acquisitions of CIL.

The carrying amount of goodwill has been allocated to the cash-generating units for impairment testing. The recoverable amount of the cash-generating unit was determined based on value-in-use calculations performed by an independent firm of professional valuers, followed by an extrapolation of discounted cash flows. The Group management's key assumptions have been determined based on the coal reserve and its expectations for the market development.

Notes to the Financial Statements

For the year ended 31 December 2006

20. GOODWILL – GROUP (Continued)

The discount rates and parameters used in determining the discount rates are shown as below:

Indicated risk free rate	3.78%
Market return	10.39%
Risk premium	6.61%
Estimated unlevered beta	1.04

Apart from the considerations described in determining the value in use of the cash generating unit above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

21. MINING RIGHTS – GROUP

	HK$'000
Year ended 31 December 2006	
Arising from acquisition of subsidiaries *(note 38)*	25,213
Amortisation charge for the year	(251)
Closing net book amount	24,962
At 31 December 2006	
Gross carrying amount	25,213
Accumulated amortisation	(251)
Carrying amount	24,962

22. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence *HK$'000*
Year ended 31 December 2006	
Addition and closing net book amount	60
At 31 December 2006	
Cost	60
Accumulated amortisation	–
Net book amount	60

Notes to the Financial Statements

For the year ended 31 December 2006

23. INVENTORIES – GROUP

	2006 HK$'000	2005 HK$'000
Coal	**1,719**	30,451
Diesel	**–**	384
Spare part and consumables	**223**	4,096
	1,942	34,931

24. ACCOUNT RECEIVABLES – GROUP

The Group's sales are billed to customers according to the terms of the relevant agreement normally ranging from 30 to 90 days. Based on the invoice dates, the ageing analysis of the Group's account receivables at the balance sheet date is as follows:

	2006 HK$'000	2005 HK$'000
Current – 90 days	**58,448**	21,056

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2006 HK$'000	2005 HK$'000
Listed equity securities – Hong Kong	**–**	508

Financial assets at fair value through profit or loss are held for trading and presented within the section on operating activities as part of changes in working capital in the cash flow statement.

Changes in fair values of financial assets at fair value through profit or loss are recorded in other operating expenses in the income statement.

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For the year ended 31 December 2006

26. CASH AND CASH EQUIVALENTS

(a) Group

Cash and cash equivalents include the following components:

	2006	2005
	HK$'000	*HK$'000*
Cash at banks and in hand	**30,683**	11,311
Short-term bank deposits	**–**	15,865
	30,683	27,176

Included in cash and cash equivalents of the Group is approximately HK$19.3 million (2005: approximately HK$22.8 million) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

At 31 December 2005, the effective interest rate of short-term bank deposits is 1.62%. They have a maturity of 7 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

(b) Company

	2006	2005
	HK$'000	*HK$'000*
Cash at banks and in hand	**2**	29

27. ASSETS HELD FOR SALE – GROUP

On 15 December 2006, the board of directors of the Company resolved to dispose of RGL, a wholly owned subsidiary of the Company. RGL is an investment holding company which indirectly held 53.1% equity interest in Longyan Hengfa, which principally engaged in management and the Power Plant Operation.

The directors of the Company have re-assessed the fair value of the relevant assets and liabilities with reference to the sale and purchase agreement entered on 8 February 2007 (note 45(ii)). The net consideration would be approximately HK$37.9 million, which is the audited consolidated net assets value of RGL less estimated costs to sell of approximately HK$1.2 million.

At 31 December 2006, the net assets of the disposal group attributable to the Group amounted to approximately HK$149.0 million, which represented the total net assets of approximately HK$241.9 million less net assets attributable to minority interests of approximately HK$92.9 million, and resulted for a loss on remeasurement to fair value less costs to sell amounted to approximately HK$111.0 million (Note 10).

27. ASSETS HELD FOR SALE – GROUP (Continued)

The major classes of assets and liabilities of RGL at 31 December 2006 which are classified as assets held for sale are as follows:

	The Group		**The Company**
	Fair value	Carrying amount upon being classified as held for sale	Fair value and carrying amount upon being classified as held for sale
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment *(note 16)*	188,461	276,478	–
Prepaid lease payments *(note 17)*	4,532	6,649	–
Due from subsidiaries *(note 18)*	–	–	40,393
Goodwill *(note 20)*	–	20,910	–
Inventories	34,898	34,898	–
Account receivables *(note (a))*	21,275	21,275	–
Prepayments, deposits and other receivables	18,097	18,097	–
Cash and cash equivalents	31,722	31,722	–
Assets classified as held for sale	**298,985**		**40,393**
Liabilities			
Account payables *(note (b))*	(19,756)	(19,756)	–
Other payables and accruals	(11,155)	(11,155)	–
Due to subsidiaries *(note 18)*	–	–	(40,393)
Amount due to a director	(2,087)	(2,087)	–
Loans from minority shareholders *(note 31)*	(15,858)	(15,858)	–
Provision for tax	(254)	(254)	–
Bank loans *(note (c))*	(119,000)	(119,000)	–
Liabilities associated with assets classified as held for sale	**(168,110)**		**(40,393)**
Net assets of operation classified as held for sale	**130,875**		**–**

Notes to the Financial Statements

For the year ended 31 December 2006

27. ASSETS HELD FOR SALE – GROUP (Continued)

(a) Account receivables

Account receivables generally have credit terms of not more than 90 days. An ageing analysis of the disposal group's account receivables at 31 December 2006, based on invoice date, is as follows:

	HK$'000
Current – 90 days	21,275

(b) Account payables

An ageing analysis of the disposal group's account payables at 31 December 2006, based on invoice dates, is as follows:

	HK$'000
Current – 90 days	19,756

(c) Bank loans

At 31 December 2006, the disposal group's bank loans were repayable as follows:

	HK$'000
Within one year	95,600
In the second year	15,600
In the third to fifth year	7,800
	119,000

Bank loans of approximately HK$80.0 million were denominated in RMB and bear interest at fixed rates, which were ranging from 5.58% to 7.96% per annum at 31 December 2006.

A bank loan of approximately HK$39.0 million was denominated in United States Dollar which bears interest at prime rate plus 0.5%, which was 8.75% per annum at 31 December 2006.

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27. ASSETS HELD FOR SALE – GROUP (Continued)

(c) Bank loans (Continued)

The disposal group's bank loans at 31 December 2006 were secured by:

(i) pledge of certain of the disposal group's buildings, plant and machineries and leasehold interest in land in the PRC, which had an aggregate carrying value at 31 December 2006 of approximately HK$90.5 million, HK$77.1 million and HK$2.4 million respectively;

(ii) bank loans of approximately HK$22.0 million were guaranteed by independent third parties;

(iii) pledge of equity interest in Longyan Hengfa held by ECL; and

(iv) subordination of all loans and other amounts due by ECL to Concade and/or shareholders of Concade. Concade, a non-wholly owned subsidiary of the Group, is the immediate holding company of ECL.

28. ACCOUNT PAYABLES – GROUP

The Group was granted by its suppliers' credit periods ranging from 30-90 days. Based on the invoice dates, the ageing analysis of the Group's account payables at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current-90 days	**3,073**	4,289
91-180 days	**–**	65
Over 180 days	**–**	431
	3,073	4,785

29. AMOUNT DUE TO A DIRECTOR – GROUP

The amount due was unsecured, repayable on demand and interest free.

Notes to the Financial Statements
For the year ended 31 December 2006

30. BANK LOANS – GROUP

	2006 **HK$'000**	2005 *HK$'000*
Bank loans repayable:		
Within one year	**46,000**	52,462
In the second year	**–**	29,413
In third to fifth years, inclusive	**–**	24,646
Beyond five years	**–**	6,233
	46,000	112,754
Portion classified as current liabilities	**(46,000)**	(52,462)
Non-current portion	**–**	60,292
Analysed as follows:		
Secured	**–**	104,600
Unsecured	**46,000**	8,154
	46,000	112,754

At 31 December 2006, bank loans of approximately HK$46.0 million were denominated in RMB and were unsecured, bear interest at fixed rates ranging from 6.12% to 12.83% per annum and repayable within one year. The loans were guaranteed by independent third parties as at 31 December 2006.

At 31 December 2005, bank loans of approximately HK$50.0 million were denominated in RMB and bore interest at fixed rates, which were ranging from 5.22% to 5.86% per annum. A bank loan of approximately HK$54.6 million was denominated in United States Dollar which bore interest at variable rate, which was 7.75% per annum at 31 December 2005, whereas a bank loan of approximately HK$8.2 million was denominated in Hong Kong Dollars which bore interest at variable rate, which was 8.25% per annum at 31 December 2005.

30. BANK LOANS – GROUP (Continued)

The Group's bank loans at 31 December 2005 were secured by:

(i) pledge of certain of the Group's buildings, plant and machineries and leasehold interest in land in the PRC, which had an aggregate net book value at 31 December 2005 of approximately HK$93.1 million, HK$118.5 million and HK$2.6 million respectively;

(ii) pledge of equity interest in Longyan Hengfa held by the Group;

(iii) pledge of 24,000,000 shares of the Company which are listed on the Stock Exchange and are beneficially owned by a director of the Company;

(iv) subordination of all loans and other amounts due by ECL to Concade and/or shareholders of Concade. Concade, a non-wholly owned subsidiary of the Group, is the immediate holding company of ECL; and

(v) corporate guarantees executed by the Company.

31. LOANS FROM MINORITY SHAREHOLDERS – GROUP

At 31 December 2005, the amount due is unsecured, interest free and is not repayable in the next twelve months after the balance sheet date. At 31 December 2006, the balance was reclassified as liabilities associated with assets classified as held for sale (note (27)).

Notes to the Financial Statements

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32. CONVERTIBLE BONDS – GROUP AND COMPANY

On 24 October 2006, the Company issued convertible bonds in the principal amount of HK$20,000,000 as part of the consideration for the acquisition of CIL. The convertible bonds bear interest at one per cent per annum with maturity date of three years from the date of issuance and are repayable after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK$0.35 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues) at any time after the second anniversary from the date of issuance.

The fair value of the liability component, included in the convertible bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves, net of deferred taxes.

The convertible bonds recognised in the balance sheet are calculated as follows:

	2006 ***HK$'000***
Proceeds of issue	**20,000**
Equity component	**(4,582)**
Liability component on initial recognition	**15,418**
Interest expense	**283**
Liability component at 31 December	**15,701**

The fair value of the liability component of the convertible bonds at the date of issue amounted to approximately HK$15.4 million. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 10.00%.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 10.00% to the liability component.

33. PROMISSORY NOTES – GROUP AND COMPANY

On 24 October 2006, the Company issued promissory notes with an aggregate principal amount of HK$307,900,000 as part of the consideration for the acquisition of CIL. The promissory notes are unsecured, interest bearing at one per cent per annum and are repayable on 31 May 2008 and were classified as non-current liabilities as at 31 December 2006 accordingly.

	2006
	HK$'000
Fair value of promissory notes at date of issue	**267,851**
Interest expense	**4,896**
At 31 December	**272,747**

34. DEFERRED TAX

The Group has tax losses arising in Hong Kong of approximately HK$4.7 million (2005: approximately HK$7.7 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2006, there is no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

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For the year ended 31 December 2006

35. SHARE CAPITAL

	2006	2005
	HK$'000	*HK$'000*
Authorised :		
1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.20 each	**200,000**	200,000
Issued and fully paid :		
At 1 January – 375,862,614 ordinary shares of HK$0.20 each	**75,173**	75,173
Acquisition of CIL – 90,000,000 ordinary shares of HK$0.20 each *(note 38)*	**18,000**	–
Placement of new shares – 75,000,000 ordinary shares of HK$0.20 each	**15,000**	–
At 31 December – 540,862,614 (2005: 375,862,614) ordinary shares of HK$0.20 each	**108,173**	75,173

The Company issued 90,000,000 ordinary shares of HK$0.20 each on 24 October 2006 to the original shareholder of CIL as part of the purchase consideration of CIL. The fair value of the shares issued at the date of acquisition amounted to HK$23.0 million (HK$0.255 per share).

During the year, 75,000,000 new shares of HK$0.20 each were issued at HK$0.22 per share for cash for working capital of the Group to support its ongoing operations.

The ordinary shares issued above have the same rights as the other shares in issue.

36. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants ("Participants") of the Scheme include any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The Scheme was approved by shareholders at a Special General Meeting on 20 October 2004 in substitution of the old share option scheme (the "Old Scheme") of the Company adopted on 15 May 1997. The Scheme became effective on 20 October 2004 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

Under the Scheme, the board of directors of the Company may at its discretion grant options to the Participants to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the shares in issue as at the adoption date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 30% of the shares in issue from time to time.

The offer of a grant of share options may be accepted with 10 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The option period of an option may not end later than 10 years after the date of offer of the option.

The subscription price for the shares under the Scheme shall be a price determined by the board of directors of the Company at its absolute discretion but in any event shall not be less than the highest of (i) the official closing price of the shares as stated in daily quotations sheet of the Stock Exchange on the offer date, (ii) the average of the official closing price of the shares as stated in daily quotations sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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36. SHARE OPTION SCHEME (Continued)

The following share options were lapsed under the Old Scheme during the year:

Name or category of participant	At 1 January 2006	Lapsed during the year	At 31 December 2006	Date of grant of share options *(note (i))*	Exercise period of share options	Exercise price of share options *(note (ii))*
Directors						
Mr. Chan Chun Keung	3,211,937	(3,211,937)	–	4 January 2001	16 January 2001 to 15 January 2006	0.32
Mr. Chau On Ta Yuen	1,062,500	(1,062,500)	–	4 January 2001	16 January 2001 to 15 January 2006	0.32
	4,274,437	(4,274,437)	–			
Other employees						
In aggregate	2,578,688	(2,578,688)	–	4 January 2001	16 January 2001 to 15 January 2006	0.32
Third parties						
In aggregate	531,250	(531,250)	–	4 January 2001	16 January 2001 to 15 January 2006	0.32
	7,384,375	(7,384,375)	–			

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 January 2006	Granted during the year	At 31 December 2006	Date of grant of share options *(note (i))*	Exercise period of share options	Exercise price of share options *(note (ii))*
Directors						
Mr. Bao Hongkai	–	3,750,000	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	0.355
Mr. Wu Jiahong	–	3,750,000	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	0.355
	–	7,500,000	7,500,000			
Other employees						
In aggregate	–	29,750,000	29,750,000	30 November 2006	30 November 2006 to 20 October 2014	0.355
	–	37,250,000	37,250,000			

Notes:

(i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

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

36. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was valued by Greater China Appraisal Limited, an independent firm of professional valuers, estimated as at the date of grant using Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the weighted average inputs to the model used for the year ended 31 December 2006.

Dividend yield (%)	N/A
Expected volatility (%)	72.8
Risk-free interest rate (%)	3.58-3.678
Expected life of option (year)	0.5-3
Price of the Company's shares at the date of grant of the share options (HK$)*	0.355

* The price of the Company's shares disclosed at the date of grant of the share options is the Stock Exchange closing price on the trading day on which the options were granted.

The expected life of the options is based on the historical data over the past one year and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The fair value of the share options granted during the year is HK$0.14 (2005: Nil). In total, approximately HK$5.2 million of employee compensation expense has been included in the consolidated income statement for 2006 (2005: Nil), the corresponding amount of which has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

At 31 December 2006, the Company had 37,250,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 37,250,000 additional ordinary shares of the Company and additional share capital of approximately HK$7.5 million and share premium of approximately HK$5.8 million (before issue expenses).

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37. RESERVES

(a) Group

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

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

The capital redemption reserve arose from the purchase of the Company's share for cancellation and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

The contributed surplus of the Group arose as a result of the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired.

In accordance with the relevant PRC regulations and the joint venture contract, the Group's PRC subsidiaries are required, at the discretion of their directors, to appropriate a certain percentage of their profit after tax, if any, to the statutory reserve fund for the future development and capital expenditure on staff welfare facilities purposes.

Pursuant to regulations in the PRC, a subsidiary of the Group is required to make a transfer to other reserve based on RMB 15 per ton of raw coal mined less the depreciation expenses of the underground coal mining equipment. This reserve would be utilised for the purposes of technical and safety developments in relation to the coal mining operation.

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37. RESERVES (Continued)

(b) Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	150,321	50	2,643	–	–	(4,649)	148,365
Net loss for the year	–	–	–	–	–	(1,385)	(1,385)
At 31 December 2005 and 1 January 2006	150,321	50	2,643	–	–	(6,034)	146,980
Issue of new shares	6,450	–	–	–	–	–	6,450
Issue of convertible bonds	–	–	–	–	4,582	–	4,582
Employee share based compensation	–	–	–	5,216	–	–	5,216
Net loss for the year	–	–	–	–	–	(151,238)	(151,238)
At 31 December 2006	**156,771**	**50**	**2,643**	**5,216**	**4,582**	**(157,272)**	**11,990**

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 37(a) and represents the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus is also available for distribution to the equity holders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Details of share premium account and capital redemption reserve of the Company are set out in note 37(a) above.

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For the year ended 31 December 2006

38. BUSINESS COMBINATIONS

On 24 October 2006, the Group acquired 100% equity interest in CIL, a company incorporated in the British Virgin Islands at a consideration of HK$397,801,000. CIL is an investment holding company which indirectly held 90% equity interest in Jinfeng Industrial and Trading Company Limited which is principally engaged in the production and sale of coal in the PRC.

Details of the net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Cash paid	87,000
– fair value of shares issued	22,950
– fair value of convertible bonds issued	20,000
– fair value of promissory notes issued	267,851
Total purchase consideration	397,801
Fair value of net assets acquired	(129,055)
Goodwill	268,746

Notes to the Financial Statements

For the year ended 31 December 2006

38. BUSINESS COMBINATIONS (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value *HK$'000*	Acquiree's carrying amount *HK$'000*
Property, plant and equipment	35,500	35,500
Goodwill	–	509
Prepaid land lease payments	1,518	1,518
Mining rights	25,213	25,213
Inventories	11,042	11,042
Account receivables	38,938	38,938
Prepayments, deposits and other receivables	187,369	187,369
Cash and bank balances	19,424	19,424
Account payables	(2,680)	(2,680)
Other payables and accruals	(71,571)	(71,571)
Tax payable	(25,302)	(25,302)
Bank loans	(76,000)	(76,000)
Net assets	143,451	143,960
Minority interests (10%)	(14,396)	
Net assets acquired	129,055	
Purchase consideration settled in cash		87,000
Cash and cash equivalents in subsidiaries acquired		(19,424)
Cash outflow on acquisition		67,576

There were no acquisitions in the year ended 31 December 2005.

Since the acquisition, the subsidiaries contributed approximately HK$102.6 million to the Group's turnover and HK$27.5 million to the profit for the year ended 31 December 2006.

Had the combination taken place at 1 January 2006, the revenue and the loss of the Group for the year ended 31 December 2006 would have been approximately HK$324.4 million and HK$86.5 million respectively, after making an impairment of amounts due from related companies of CIL amounted to approximately HK$66.7 million. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006 nor are they intended to be a projection of future results.

Notes to the Financial Statements

For the year ended 31 December 2006

39. DISPOSAL OF SUBSIDIARIES

(a) On 24 April 2006, RGL, a wholly-owned subsidiary of the Company, entered into an agreement with Meta Investments (China) Limited ("Meta Investments"), a company which is beneficially and wholly-owned by the sisters of Mr. Chan, a director of the Company, pursuant to which RGL has agreed to sell, and Meta Investments has agreed to purchase (a) the Group's entire equity interest, which represents 85% of the issued share capital of, Goodfield Development Limited ("Goodfield"), a subsidiary of the Company; and (ii) certain outstanding loans of Goodfield to the subsidiaries of the Group, at an aggregate consideration of approximately HK$88.6 million. The directors of the Company believed that the disposal enabled the Group to streamline the business scope and focus its businesses in energy and power related businesses and not to divert any of its management time and resources in any other investments.

	2006
	HK$'000
Net assets disposed of:	
Loans to jointly-controlled entities	**71,511**
Other receivables	**154**
Cash and bank balances	**77**
Other payables and accruals	**(104)**
Loans from minority shareholders	**(10,795)**
Minority interests	**10**
	60,853
Gain on disposal of subsidiaries	**27,757**
Total consideration	**88,610**
Satisfied by:	
Cash	**88,610**

Notes to the Financial Statements

For the year ended 31 December 2006

39. DISPOSAL OF SUBSIDIARIES (Continued)

(b) On 15 November 2006, the Company entered into an agreement with Origin Holdings (HK) Limited ("Origin"), a company which is beneficially owned by Mrs. Judy Leissner, a Director of the Company, and her mother. Pursuant to which the Company has agreed to sell, and Origin has agreed to purchase the Company's entire equity interest of the issued share capital of Dragonfield Group (BVI) Limited at a consideration of approximately US$1,000 (equivalent to HK$8,000).

	2006
	HK$'000
Net assets disposed of:	
Property, plant and equipment	**1,018**
Deposit and other receivables	**255**
Cash and bank balances	**1,535**
Account payables	**(31)**
Other payables and accruals	**(222)**
Due to a director	**(105)**
Provision for taxation	**(106)**
	2,344
Loss on disposal of subsidiaries	**(2,336)**
Total consideration	**8**
Satisfied by:	
Cash	**8**

(c) An analysis of the net inflow of cash and cash equivalents in respect of the disposals of the above subsidiaries:

	2006
	HK$'000
Cash consideration	**88,618**
Cash and balances disposed of	**(1,612)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**87,006**

The subsidiaries sold during the year ended 31 December 2006 did not contribute any turnover to the Group and contributed a loss after taxation and minority interests of HK$5,292,000 to the consolidated results for the year ended 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2006

40. OPERATING LEASE COMMITMENTS

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**935**	586
In the second to fifth years inclusive	**1,105**	390
After five years	**206**	–
	2,246	976

The Group leases certain properties under operating leases. The leases run for an initial period of one to nine years, without option to renew the lease term at the expiry date. None of the lease includes contingent rentals.

The Company did not have any significant lease commitments at 31 December 2006 (2005: Nil).

41. CAPITAL COMMITMENTS

At 31 December 2006, the Group had capital expenditure commitments in relation to the purchase of property, plant and equipment contracted but not provided for, net of deposit paid, amounted to approximately HK$3.5 million (2005: Nil).

The Company did not have any significant capital commitments at 31 December 2006 (2005: Nil).

42. CONTINGENT LIABILITIES

At 31 December 2006, the Company had no significant contingent liabilities.

At 31 December 2005, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries in an aggregate amount of approximately HK$9.7 million, of which approximately HK$8.2 million was utilised at that date.

43. RELATED PARTY TRANSACTIONS – GROUP

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

(a) On 8 April 2005, the Group granted a shareholder's loan of approximately HK$8.9 million to United Force Development Limited, a jointly-controlled entity in which the Group holds 50% equity interests and a brother-in-law of Mr. Chan, a director of the Company, holds the other 50% equity interests. The amount advanced was unsecured, interest free and would not be repayable within the next twelve months.

(b) Compensation of key management personnel

	2006	2005
	HK$'000	*HK$'000*
Total remuneration of directors and other members of key management during the year *(note 14)*	**2,099**	1,841

44. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet or in the notes to the financial statements. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

(b) Foreign currency risk

The sales and purchases of the Group are predominantly in RMB. The Group does not hedge its foreign currency risks, as the management does not expect any significant movements in the exchange rate between RMB and Hong Kong Dollar.

Notes to the Financial Statements

For the year ended 31 December 2006

44. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Interest rate risk

The Group has no significant interest bearing assets except for cash and cash equivalents, the interest rates and terms of which are disclosed in note 26. The Group's interest rate risk arises from bank loans, convertible bonds and promissory notes, the interest rates and terms of repayment are disclosed in notes 30, 32 and 33 respectively.

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

45. SUBSEQUENT EVENTS

Save as those disclosed elsewhere in the financial statements, the Group and the Company had the following significant subsequent events:

(i) On 2 January 2007, the Company announced that it has entered into a subscription agreement dated 28 December 2006 with a subscriber for the subscription of 100,000,000 new shares at HK$0.38 per share. The new shares will rank equally with the existing shares. The net proceeds of the subscription will be used as working capital of the Group.

(ii) On 13 February 2007, the Company announced that it has entered into a conditional sale and purchase agreement dated 8 February 2007 with a purchaser in relation to the sale and purchase of the entire issued share capital of RGL and the entire amount of an interest free shareholder's loan owing from RGL to the Company. The consideration is approximately HK$12.6 million. The directors considered that this fairly represents the fair value of the disposal group classified as held for sale, and this amount will be adjusted to the audited consolidated net assets value of RGL attributable to the Company as at 31 December 2006. To the best knowledge, information and belief of the directors of the Company and having made all reasonable enquiries, the purchaser and its ultimate beneficial owner are independent of and not connected with the Company and its connected persons.

(iii) On 14 March 2007, the Company announced that the name of the Company has been changed from "Everbest Century Holdings Limited 恒發世紀控股有限公司" to "Everbest Energy Holdings Limited 恒發能源控股有限公司" with effect from 9 March 2007.

46. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of the reclassification of the discontinued operations.