Annual Report 2007

合動能源

Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578

Contents

Corporate Information

DIRECTORS

Mr. Bao Hongkai (Chairman)
Mr. Wu Jiahong
Mr. Xu Lidi
Mr. Cheng Koon Cheung
Mr. Chan Kin Sang*
Mr. Ng Wing Hang, Patrick*
Mr. Choi Man Chau, Michael*

* *Independent Non-Executive Director*

COMPANY SECRETARY

Mr. Li Chun On

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 5608, 56/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road
Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

X. J. Wang & Co.
Suite 2208, 22/F
Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL REGISTRAR

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

REGISTRAR IN HONG KONG

26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial period/years, as extracted from the Group's audited financial statements, is set out below:

(A) RESULTS

	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004	Period from 1 April 2003 to 31 December 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
– Continuing operations*	**564,757**	102,599	–	118,711	27,763
– Discontinued operations**	**58,925**	159,936	186,535	–	–
Profit/(loss) before income tax from continuing operations	**221,409**	25,690	(7,725)	17,354	24,427
Income tax (expenses)/credit	**(71,945)**	(16,240)	–	3,064	–
Profit/(loss) after tax from continuing operations	**149,464**	9,450	(7,725)	20,418	24,427
Profit/(Loss) from discontinued operations	**813**	(88,584)	(51,502)	–	–
Minority interests	**(16,082)**	(3,549)	(3,769)	(5,720)	761
Profit/(loss) attributable to equity holders of the Company	**134,195**	(82,683)	(62,996)	14,698	25,188

* *Continuing operations for the years ended 31 December 2006 and 2007 represent the production and sales of coal.*

** *Discontinued operations for the years ended 31 December 2005, 2006 and 2007 represent the generation and sale of electricity.*

Summary Financial Information

(B) ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**1,001,009**	332,583	386,459	450,062	244,538
Current assets	**302,432**	575,442	91,309	119,524	42,350
Total assets	**1,303,441**	908,025	477,768	569,586	286,888
Current liabilities	**264,026**	326,951	80,799	108,146	20,327
Non-current liabilities	**641,201**	288,448	86,344	96,067	8,697
Total liabilities	**905,227**	615,399	167,143	204,213	29,024
Minority interests	**34,726**	110,080	105,134	99,287	628
	363,488	182,546	205,491	266,086	257,236

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Dynamic Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

FINANCIAL RESULTS

The Group turned around its profitability in Year 2007 on strong and full year contributions from coal mining business which was acquired in October 2006. The Group's net profit for Year 2007 was approximately HK$150.3 million compared with a net loss of approximately HK$79.1 million for Year 2006 when the loss derived from the discontinued business was approximately HK$88.6 million.

The Group's turnover and gross profit have been significantly increased for Year 2007, they amounted to approximately HK$564.8 million and HK$282.1 million respectively, mainly due to the full year contributions from coal mining business. The gross profit % was 49.95% for Year 2007.

Earnings per share and diluted earnings per share for Year 2007 amounted to HK21.679 cents and HK11.265 cents respectively.

DIVIDEND

The Board does not recommend the payment of any dividend in respect of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Successful Business Transformation

The Group is a committed coal mine operator with a meaningful provincial niche and stable clientele established in Henan Province after complete disposal of its electricity business during the first half of 2007. The Board expects the Group's revenue and profitability can maintain a remarkable increment in the future. The Group has already swung back into profit after completely disposing the electricity business. Earnings should improve on the back of additional contract sales as the acquired coal mines are expected to go on stream steadily to meet rising demand, and better control over pricing and costs. The Group has solid growth prospects, both organically and via acquisitions, underpinned by continuously strong coal demand and rising coal prices in China which are favorable to the Group's future earnings.

Chairman's Statement

Successful Acquisition of Coal Mines

The Group has also proven its abilities in successfully executing acquisitions of operating mines with quality coal reserves that make meaningful contributions to the Group's profitability. Since October 2006, the Group has totally acquired five coal mines within the Henan Province. Experience and expertise gained in its past acquisitions should underpin the Group's ongoing acquisitive strategy. It is management's strategy not to acquire green-field mine but only acquire operational mines which contribute to top and bottom lines.

Coal Production and Coal Reserves

The Group focuses on production of raw and screened thermal coal mainly for power generation purpose. Its coal, which is in strong demand, is of medium-grade quality, with low/medium ash, low sulphur, medium volatile matter and low phosphorous contents. The five coal mines currently owned by the Group combined cover a total area of approximately 7.7 sq km with total coal reserves of approximately 36 million tons ("mt") as of end of December 2007 and have produced approximately 1.6mt of coal in 2007.

Efficient Cost Structure

With a provincial focus, the Group operates with a more efficient cost structure than many of its peers, such as those in North China. Transportation costs, which can take up to 30% of operating costs at some coal miners, are passed on to Group's customers. Most of the customers of the Group arrange to pick up coal at our mine mouths, and bear the transportation costs by themselves. This is one of the important factors which allow the Group to achieve a high gross margin.

PROSPECT

Since the acquisition of Clear Interest Limited and its subsidiaries in last year, the Group has repositioned itself as a committed owner and operator of coal mines in China. With strong management expertise and a long-term vision in coal mining business, the Group is dedicated to exert management efforts, financial and technical resources to further expand its operations. Capitalizing on a niche franchise and good relationships established by the Group with local government and customers in Henan, management plans to maintain a geographical focus in Henan for the time being.

The Group plans to expand its mining operations through organic growth and acquisitions. Currently, it operates five coal mines, with total coal reserves of approximately 36mt as of end of December 2007 and achievable output capacity of up to approximately 2mt in 2008. Management targets to expand the coal reserve size to approximately 100mt and annual capacity up to approximately 6mt by 2011 to achieve better economies of scale and capture the continuous increase in coal demand. The Group will continue to identify suitable local mines to enlarge its coal reserves and output capacity, taking advantage of industry consolidation in China.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the net asset value of the Group is approximately HK$398.2 million (31 December 2006: approximately HK$292.6 million) and the total cash and bank balance is approximately HK$115.2 million (31 December 2006: approximately HK$30.7 million).

At 31 December 2007, bank loans of approximately HK$30.3 million were denominated in Renminbi ("RMB") and were secured by certain accounts receivable, bear interest at fixed rate of 8.4% per annum; bank loans of approximately HK$53.4 million (2006: approximately HK$46.0 million) were denominated in RMB and were unsecured, bear interest at fixed rates ranging from 6.73% to 11.32% per annum (2006: 6.12% to 12.83% per annum) and of approximately HK$21.4 million (2006: approximately HK$46.0 million) and HK$32.0 million (2006: Nil) were guaranteed by independent third parties and a director of a subsidiary respectively.

During the year, the Company has issued two additional convertible bonds with the major purposes for settlement of the promissory notes and payment of purchase consideration on acquisition of a subsidiary. As at 31 December 2007, the liability components and the fair value of compound derivative components of all the outstanding convertible bonds stated in the non-current liabilities of the balance sheet amounted to HK$230.4 million and HK$158.8 million respectively. One of the convertible bonds was secured by the Company's entire interest in two subsidiaries, namely Clear Interest Limited and Zhong Yue Energy Development (Shenzhen) Company Limited. Details of the convertible bonds are disclosed in note 28 to the financial statements.

The Group's gearing ratio, as a ratio of total long term debts to total equity, was 97.7% as at 31 December 2007 (31 December 2006: 98.6%).

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Bao Hongkai	36	Executive Director, Chairman	2	Joined the Group in 2006. He graduated from Henan Polytechnic University, Henan Province, the People's Republic of China, except Hong Kong (the "PRC"). He has over 10 years of experience in coal mining industry in the PRC. He is currently the legal representative of a group company in the PRC. He is responsible for the management and operation of coal mines of the Group.
Wu Jiahong	41	Executive Director	2	Joined the Group in 2006. He holds a Bachelor of Art diploma from the Beijing Foreign Studies University of Beijing, the PRC and a Master of Business Administration degree from the Georgetown University in the United States. He has over 15 years of experience in corporate finance and strategic management. He is responsible for the management and financial operation of the Group.
Xu Lidi	42	Executive Director	1	Joined the Group in 2006 and appointed as Executive Director in March 2008. He holds a Master of Business Administration degree from the Honolulu University. He used to be a senior manager at two PRC major financial institutions. He has over 20 years working experience in banking, finance and direct investment and company restructuring. He is responsible for the business development, sales and marketing and customer relationships of the Group.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Cheng Koon Cheung	42	Executive Director	2	Joined the Group in 2006. He was an independent non-executive director of a company listed on the Growth Enterprise Market in 2001-2003 and an executive director of a company listed on the Main Board of the Stock Exchange in 2005-2006. He is responsible for corporate planning and market development of the Group.
Chan Kin Sang	56	Independent Non-Executive Director	4	Joined the Group in 2004. He has been a practising solicitor in Hong Kong since 1982. Mr. Chan was admitted as a notary public in 1997 and a China-appointed attesting officer in 2000. He is the sole proprietor of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. He is currently as an independent non-executive director of three Singapore listed companies and of four Hong Kong listed companies. He is also a non-executive director of a Singapore listed company.
Ng Wing Hang, Patrick	55	Independent Non-Executive Director	4	Joined the Group in 2004. He is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Messrs. NCN CPA Limited, Certified Public Accountants. Mr. Ng also serves as an independent non-executive director of two other listed companies in Hong Kong, namely, Shenyin Wanguo (H.K.) Limited and Far East Hotels and Entertainment Limited.
Choi Man Chau, Michael	51	Independent Non-Executive Director	2	Joined the Group in 2006. He is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is a practising Certified Public Accountant and has been practicing in Hong Kong for over 20 years.

Corporate Governance Practices

The Board places importance on corporate governance and reviews its corporate governance practices from time to time to protect the interests of the Group and the shareholders.

In light of the Code of Corporate Governance Practice (the "Code") set out in Appendix 14 of the Listing Rules which came into effect on 1 January 2005, the Board has reviewed the corporate governance practices of the Group with the adoption and improvement of various relevant procedures. The Company has applied the principles of and complied with the applicable code provisions in the Code during the year ended 31 December 2007.

DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code throughout the year 2007.

BOARD OF DIRECTORS

The Board currently comprises seven Directors and its composition is set out as follows:

Executive Directors	Mr. Bao Hongkai (Chairman)
	Mr. Wu Jiahong
	Mr. Xu Lidi (appointed on 3 March 2008)
	Mr. Cheng Koon Cheung
Independent Non-Executive Directors ("INEDs")	Mr. Chan Kin Sang
	Mr. Ng Wing Hang, Patrick
	Mr. Choi Man Chau, Michael

The brief biographical details of the Directors and the relationship among them are set out in the section headed "Biographical Details in Respect of the Directors" in the 2007 annual report of the Company, of which this report forms part.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policies, significant changes in accounting policy, material contracts and major investment. Day-to-day management of the Group's businesses is delegated to the Executive Directors or senior management. The Board reviews the delegation of power and functions from time to time to ensure effectiveness and appropriateness.

Corporate Governance Practices

The Board meets regularly to discuss the overall strategy and review the financial and operating performance of the Group. Individual attendance of each Director at the Board meetings, the Audit Committee meetings, the Remuneration Committee meeting and the Nomination Committee meeting during 2007 is set out below:

		Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Bao Hongkai	6/10	–	–	–
Mr. Wu Jiahong	9/10	–	2/2	2/2
Mr. Cheng Koon Cheung	10/10	–	–	–
INEDs				
Mr. Ng Wing Hang, Patrick	6/10	3/3	2/2	2/2
Mr. Chan Kin Sang	6/10	3/3	2/2	2/2
Mr. Choi Man Chau, Michael	6/10	3/3	2/2	2/2

CHAIRMAN AND CHIEF EXECUTIVE

The Group's Chairman is Mr. Bao Hongkai, Managing Director is Mr. Wu Jiahong. The roles of the Chairman and the Managing Director are segregated to reinforce their respective independence and accountability. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. The Chairman is responsible for corporate planning and market development. The Managing Director, who performs the functions of chief executive of the Group, is responsible for the day-to-day management and financial operation of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term and subject to re-election. The INEDs are not appointed for specific terms but they are subject to retirement by rotation and re-election at the Annual General Meetings ("AGM") of the Company. Pursuant to Bye-law 111 of the Bye-laws of the Company, each Director shall be subject to retirement by rotation at least once every three years at the AGM. This means that the term of appointment of the Directors, including INEDs, cannot exceed three years. The Board considers that the independent non-executive directors so appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code.

Corporate Governance Practices

REMUNERATION COMMITTEE

The Remuneration Committee was established in April 2005 and comprises the Managing Director, namely Mr. Wu Jiahong and all INEDs, namely Mr. Ng Wing Hang, Patrick, Mr. Chan Kin Sang and Mr. Choi Man Chau, Michael. Mr. Wu Jiahong is the chairman of the Remuneration Committee.

The principle role and functions of the Remuneration Committee are to exercise the powers of the Board to determine and review the remuneration packages of individual Executive Directors and key executives, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option and other plans considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and key executives, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

During 2007, the Remuneration Committee held two meetings. The Remuneration Committee reviewed the remuneration policies and recommended to the Board the salaries and bonus of the Executive Directors and certain key senior management.

The terms of reference of the Remuneration Committee are available for inspection on request during office hours at the Company's principal place of business in Hong Kong at Unit 5608, 56/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong with prior appointment.

NOMINATION COMMITTEE

The Nomination Committee was established in April 2005 and comprises the Managing Director, namely Mr. Wu Jiahong and all INEDs, namely Mr. Ng Wing Hang, Patrick, Mr. Chan Kin Sang and Mr. Choi Man Chau, Michael. Mr. Wu Jiahong is the chairman of the Nomination Committee.

The principle role and functions of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

During 2007, the Nomination Committee held two meetings. The Nomination Committee has reviewed the structure, size and composition of the Board and assessed the independence of all the INEDs.

The terms of reference of the Nomination Committee are available for inspection on request during office hours at the Company's principal place of business in Hong Kong at Unit 5608, 56/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong with prior appointment.

AUDIT COMMITTEE

The Board has established an Audit Committee, the current members of which are Mr. Ng Wing Hang, Patrick, Mr. Chan Kin Sang and Mr. Choi Man Chau, Michael, all of whom are INEDs. Mr. Ng Wing Hang, Patrick is the chairman of the Audit Committee.

The principle role and functions of the Audit Committee are to review and provide supervision over the Group's financial reporting process and internal controls.

During 2007, the Audit Committee held three meetings. The Audit Committee has, among other things, reviewed the financial statements of the Group for the year ended 31 December 2006 and for the year ended 31 December 2007, and recommended such financial statements to the Board for approval.

The terms of reference of the Audit Committee are available for inspection on request during office hours at the Company's principal place of business in Hong Kong at Unit 5608, 56/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong with prior appointment.

AUDITORS' REMUNERATION

During the year ended 31 December 2007, the remuneration paid and payable to the auditors of the Company, Grant Thornton, for provision of the Group's statutory audit and other audit services were approximately HK$0.8 million and HK$0.7 million respectively. No non-audit services were provided to the Group during the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Company's accounts. The financial statements for the year ended 31 December 2007 have been prepared in accordance with Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosure requirements of the Listing Rules and other applicable regulatory requirements

The reporting responsibilities of the external auditors, Grant Thornton, are set out in the Independent Auditors' Report on page 20.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. During the year 2007, the Board has reviewed the effectiveness of the existing system of internal control with a view to safeguard the shareholders' investment and the Group's assets.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. Media briefings will be organized from time to time to relay details of the Group's latest business initiatives and market development plans.

When necessary, regular meetings will be also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

Directors' Report

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 92.

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's share capital and share option scheme during the year, together with the reasons therefore, are set out in notes 31 and 32, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company has reserve available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account, in the amount of approximately HK$27.6 million at 31 December 2007, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers for continuing operation accounted for approximately 93% of the total revenue of continuing operation for the year. Purchases of coal from the Group's five largest suppliers for continuing operation accounted for 53% of the total purchases of coal for the year and purchases from the largest supplier included therein amounted to 28%.

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

DIRECTORS

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

Executive Directors:

Mr. Bao Hongkai	
Mr. Wu Jiahong	
Mr. Xu Lidi	(Appointed on 3 March 2008)
Mr. Cheng Koon Cheung	
Mr. Chan Chun Keung	(Resigned on 27 June 2007)
Mrs. Judy Leissner	(Resigned on 19 May 2007)
Mr. Chan Kin	(Resigned on 27 June 2007)
Mr. Li Wan Luk	(Resigned on 14 March 2007)
Mr. Lam Chung Chak	(Resigned on 14 March 2007)

Independent Non-Executive Directors:

Mr. Chan Kin Sang
Mr. Ng Wing Hang, Patrick
Mr. Choi Man Chau, Michael

In accordance with clause 111 of the Company's Bye-laws, Mr. Cheng Koon Cheung and Mr. Choi Man Chau, Michael will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the directors of the Company are set out on pages 8 to 9.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 December 2007, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Directors	Nature of interest	Number of shares	Percentage of the Company's issued share capital
Mr. Bao Hongkai ("Mr. Bao")	Interests in controlled corporation	90,000,000 *Note 1*	13.50%
	Personal interest	3,750,000 *Note 2*	0.56%
Mr. Wu Jiahong ("Mr. Wu")	Personal interest	3,750,000 *Note 2*	0.56%

Note 1 – Such Shares were held through Dragon Rich Resources Limited ("Dragon Rich"), a company incorporated in the British Virgin Islands which is beneficially owned as to 40% by Mr. Bao, as to 20% by Mr. Wu, as to 20% by Mr. Xu Lidi ("Mr. Xu") and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao and Mr. Wu are the executive directors of the Company during the year. Mr. Bao, Mr. Wu and Mr. Xu are the directors of Dragon Rich. Dragon Rich also holds two convertible bonds ("CB") of the Company with the initial principal face value of HK$20,000,000 and HK$230,000,000. As at 31 December 2007, the CB remained outstanding. Upon full conversion thereof at an initial conversion price of HK$0.35 and HK$1.1 per share respectively, a total of 266,233,766 shares will be issued to Dragon Rich.

Note 2 – Each of Mr. Bao and Mr. Wu is interested as a grantee of share options to subscribe for 3,750,000 shares of the Company under the share option scheme as disclosed in note 32 to the financial statements.

(b) Long positions in the shares of associated corporations of the Company

		Number of shares held, capacity and nature of interest			
Name of Directors	**Name of subsidiaries**	**Shares**	**Number of shares held/ Amount of capital paid**	**Capacity and nature of interest**	**Percentage of the equity interest**
Mr. Bao	登封市金豐工貿有限責任公司 (Jinfeng Industrial and Trading Company Limited) ("Jinfeng")	N/A	RMB1,600,000	Beneficial owner	10%

Save as disclosed above and note 32 to the financial statements, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange as at 31 December 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and note 32 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Company's Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to the Directors or chief executive of the Company, as at 31 December 2007, the person, other than the Directors or chief executive of the Company, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, were as follows:

Long positions in the shares

Name of Shareholders	Capacity	Number of Shares	Approximate percentage of shareholding
Dragon Rich Resources Limited[1]	Beneficial owner	90,000,000	13.50%
Century Enterprise Investments Inc.[2]	Beneficial owner	105,642,250	15.84%
Hopeview Consultants Limited[3]	Beneficial owner	75,000,000	11.25%

Notes:

(1) Dragon Rich Resources Limited is beneficially owned as to 40% by Mr. Bao, as to 20% by Mr. Wu, as to 20% by Mr. Xu and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao and Mr. Wu are the executive directors of the Company during the year.

(2) Century Enterprise Investments Inc. is beneficially and wholly owned by Mr. He Peng. He is independent and not related to the Board or management of the Company.

(3) Hopeview Consultants Limited is beneficially and wholly-owned by Mr. Liu Changsong. He is independent and not related to the Board or management of the Company.

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

PENSION SCHEME AND COSTS

Details of the Group's pension scheme and the employer's pension costs charged to the income statement for the year are set out in notes 3.20 and 8 to the financial statements, respectively.

In the opinion of the Directors, the Group had no significant obligations for long service payments to its employee pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group has a total of approximately 3,800 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover and a Mandatory Provident Fund. A share option scheme was adopted by the Group on 20 October 2004 to enable the Directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group. During the year, no share option was granted to executives and employees.

CONNECTED TRANSACTIONS

Details of the connected transactions are included in note 38 to the financial statements.

AUDITORS

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

For and on behalf of the Board

Bao Hongkai
Chairman

Hong Kong
2 April 2008

Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Dynamic Energy Holdings Limited 合動能源控股有限公司
(Formerly known as Everbest Energy Holdings Limited 恒發能源控股有限公司)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Dynamic Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 92, which comprise the company and consolidated balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

BASIS FOR QUALIFIED OPINION

The Group disposed of its subsidiary, Royce Group Limited ("RGL"), on 22 May 2007. After the disposal, the Company became to have no access to the accounting records of RGL and its subsidiaries (the "RGL Group"). Due to this limitation, the Company was not able to provide us the accounting records of the RGL Group for our audit. The Company has consolidated the RGL Group based on the RGL Group's unaudited financial statements for the period from 1 January 2007 to 31 May 2007 and the results thereof have been disclosed in note 10 to the financial statements. There were no other satisfactory audit procedures that would adopt to satisfy ourselves that there were no material misstatements in the RGL Group's unaudited financial statements. Accordingly, we are unable to satisfy ourselves that disclosures about the RGL Group in the notes to the financial statements are fairly stated. Any adjustments considered necessary to the RGL Group's unaudited financial statements would have consequential effect on

- the gain on disposal of approximately HK$18.1 million included in the consolidated income statement, and

- the net cash flows relating to the disposal of the RGL Group presented under investing activities in the consolidated financial statements and the note thereto.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the financial information of the RGL Group before its disposal during the year, the consolidated financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2007 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

2 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations:			
Revenue	5	**564,757**	102,599
Cost of sales		**(282,644)**	(52,784)
Gross profit		**282,113**	49,815
Other income	5	**31,035**	1,766
Selling expenses		**(3,466)**	(1,527)
Administrative expenses		**(77,548)**	(15,733)
Other operating expenses		**(51,322)**	(34)
Gain/(Loss) on disposal of subsidiaries	35	**18,075**	(2,336)
Operating profit		**198,887**	31,951
Change in fair value of compound derivative financial instruments	28	**58,150**	–
Finance costs	7	**(35,628)**	(6,261)
Profit before income tax	8	**221,409**	25,690
Income tax expense	9	**(71,945)**	(16,240)
Profit after tax from continuing operations		**149,464**	9,450
Discontinued operations:			
Profit/(Loss) for the year from discontinued operations	10	**813**	(88,584)
Profit/(Loss) for the year		**150,277**	(79,134)
Attributable to:			
Equity holders of the Company	11	**134,195**	(82,683)
Minority interests		**16,082**	3,549
Profit/(Loss) for the year		**150,277**	(79,134)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year	12		
– Basic (HK cents)			
From continuing and discontinued operations		**21.679**	(20.710)
From continuing operations		**21.621**	1.554
– Diluted (HK cents)			
From continuing and discontinued operations		**11.265**	N/A
From continuing operations		**11.217**	1.551

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**144,040**	37,338
Prepaid lease payments	17	**1,310**	1,477
Goodwill	19	**251,575**	268,746
Mining rights	20	**603,869**	24,962
Other intangible assets	21	**215**	60
		1,001,009	332,583
Current assets			
Inventories	22	**19,273**	1,942
Accounts receivable	23	**84,145**	58,448
Prepayments, deposits and other receivables		**83,834**	185,384
Cash and cash equivalents	24(a)	**115,180**	30,683
		302,432	276,457
Assets classified as held for sale	25	**–**	298,985
		302,432	575,442
Current liabilities			
Accounts payable	26	**14,596**	3,073
Other payables and accruals		**112,900**	68,226
Provision for tax		**52,793**	41,542
Bank loans	27	**83,737**	46,000
		264,026	158,841
Liabilities associated with assets classified as held for sale	25	**–**	168,110
		264,026	326,951
Net current assets		**38,406**	248,491
Total assets less current liabilities		**1,039,415**	581,074
Non-current liabilities			
Compound derivative financial instruments	28	**158,806**	–
Other payables	34(b)	**251,950**	–
Convertible bonds	28	**230,445**	15,701
Promissory notes	29	**–**	272,747
		641,201	288,448
Net assets		**398,214**	292,626

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*31*	**66,686**	108,173
Reserves	*33(a)*	**296,802**	74,373
		363,488	182,546
Minority interests		**34,726**	110,080
Total equity		**398,214**	292,626

Wu Jiahong
Director

Cheng Koon Cheung
Director

Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	**511,043**	409,562
Current assets			
Prepayments, deposits and other receivables		**254**	16
Cash and cash equivalents	24(b)	**88,000**	2
		88,254	18
Assets classified as held for sale	25	**–**	40,393
		88,254	40,411
Current liabilities			
Other payables and accruals		**10,949**	969
		10,949	969
Liabilities associated with assets classified as held for sale	25	**–**	40,393
		10,949	41,362
Net current assets/(liabilities)		**77,305**	(951)
Total assets less net current liabilities		**588,348**	408,611
Non-current liabilities			
Compound derivative financial instruments	28	**158,806**	–
Convertible bonds	28	**230,445**	15,701
Promissory notes	29	**–**	272,747
		389,251	288,448
Net assets		**199,097**	120,163
EQUITY			
Share capital	31	**66,686**	108,173
Reserves	33(b)	**132,411**	11,990
Total equity		**199,097**	120,163

Wu Jiahong
Director

Cheng Koon Cheung
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company											Minority interest	Total
	Share capital HK$'000	Share premium* *(Note 33(a))* HK$'000	Equity component of convertible bonds* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* *(Note 33(a))* HK$'000	Other reserve* *(Note 33(a))* HK$'000	Contributed surplus* *(Note 33(a))* HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits/ (Accumulated losses)* HK$'000	Statutory reserve fund* *(Note 33(a))* HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2006	75,173	150,321	–	–	50	–	3,284	1,919	(29,483)	4,227	205,491	105,134	310,625
(Loss)/Profit for the year	–	–	–	–	–	–	–	–	(82,683)	–	(82,683)	3,549	(79,134)
Exchange difference – net income recognised directly in equity	–	–	–	–	–	–	–	9,874	–	616	10,490	2,327	12,817
Total recognised income and expense for the year	–	–	–	–	–	–	–	9,874	(82,683)	616	(72,193)	5,876	(66,317)
Transfer	–	–	–	–	–	3,211	–	–	(12,884)	9,673	–	–	–
Acquisition of subsidiaries *(note 35(c))*	–	–	–	–	–	–	–	–	–	–	–	14,396	14,396
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(10)	(10)
Issue of new shares	33,000	6,450	–	–	–	–	–	–	–	–	39,450	–	39,450
Issue of convertible bonds	–	–	4,582	–	–	–	–	–	–	–	4,582	–	4,582
Employee share based compensation	–	–	–	5,216	–	–	–	–	–	–	5,216	–	5,216
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(15,316)	(15,316)
At 31 December 2006 and 1 January 2007	108,173	156,771	4,582	5,216	50	3,211	3,284	11,793	(125,050)	14,516	182,546	110,080	292,626
Profit for the year	–	–	–	–	–	–	–	–	134,195	–	134,195	16,082	150,277
Exchange difference – net income recognised directly in equity	–	–	–	–	–	–	–	16,884	–	–	16,884	1,951	18,835
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,884**	**134,195**	**–**	**151,079**	**18,033**	**169,112**
Transfer	–	–	–	–	–	22,568	–	–	(30,917)	8,349	–	–	–
Disposal of subsidiaries *(note 35(a))*	–	–	–	–	–	–	–	(12,435)	–	(4,842)	(17,277)	(93,387)	(110,664)
Placement of shares *(note 31(b))*	20,000	17,910	–	–	–	–	–	–	–	–	37,910	–	37,910
Exercise of share options *(note 31(c))*	2,650	10,220	–	(3,640)	–	–	–	–	–	–	9,230	–	9,230
Capital reorganisation													
– Reduction of share capital *(note 31(d))*	(64,137)	–	–	–	–	–	64,137	–	–	–	–	–	–
– Reduction of share premium *(note 31(d))*	–	(157,272)	–	–	–	–	–	–	157,272	–	–	–	–
At 31 December 2007	**66,686**	**27,629**	**4,582**	**1,576**	**50**	**25,779**	**67,421**	**16,242**	**135,500**	**18,023**	**363,488**	**34,726**	**398,214**

* The aggregate amount of these balances of approximately HK$296.8 million (2006: approximately HK$74.4 million) represents the reserves in the consolidated balance sheet.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax, including loss from discontinued operation		**222,576**	(62,002)
Adjustments for:			
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs	5	**(21,983)**	–
Change in fair value of compound derivative financial instruments	8	**(58,150)**	–
Interest expense	7	**38,280**	14,153
Amortisation of mining rights	8	**11,005**	251
Amortisation of prepaid lease payments	8	**258**	525
Amortisation of intangible assets	8	**94**	–
Impairment loss on goodwill	8	**17,171**	–
Impairment loss on other receivables	8	**17,130**	–
Interest income	5	**(4,704)**	(2,771)
Depreciation	8	**7,502**	22,300
Loss on disposals of property, plant and equipment	8	**2,155**	103
Net gain on disposals of subsidiaries	35	**(18,075)**	(25,421)
Loss on re-measurement to fair value less costs to sell	10	**9,230**	111,044
Loss on derecognition of promissory notes	8	**18,659**	–
Equity-settled share option expenses	13	**–**	5,216
Operating profit before working capital changes		**241,148**	63,398
(Increase)/Decrease in inventories		**(9,334)**	9,133
Increase in accounts receivable		**(18,371)**	(19,729)
Decrease/(Increase) in prepayments, deposits and other receivables		**104,055**	(8,628)
Decrease in assets classified as held for sale		**11,424**	–
Decrease in liabilities associated with assets classified as held for sale		**(42,804)**	–
Decrease in financial assets at fair value through profit or loss		**–**	508
Increase in accounts payable		**8,052**	15,395
Increase/(Decrease) in other payables and accruals		**34,212**	(10,541)
Decrease in amount due to a director		**–**	(904)
Cash generated from operations		**328,382**	48,632
Interest received		**4,704**	2,516
Interest paid		**(15,493)**	(8,974)
Income tax paid		**(63,752)**	(2,311)
Net cash generated from operating activities		**253,841**	39,863

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from investing activities			
Purchases of mining rights		**(14,867)**	–
Purchases of other intangible assets		**(250)**	(60)
Purchases of property, plant and equipment		**(57,454)**	(3,940)
Proceeds from disposals of property, plant and equipment		**2,842**	35
Acquisitions of subsidiaries (net of cash and cash equivalent acquired)	34	**(354,558)**	(67,576)
Disposals of subsidiaries (net of cash and cash equivalent disposed)	35	**28,360**	87,006
Loan advances from minority shareholder		**–**	601
Net cash (used in)/generated from investing activities		**(395,927)**	16,066
Cash flows from financing activities			
New bank loans		**147,805**	91,500
Repayments of bank loans		**(113,187)**	(115,254)
Repayments of promissory notes		**(76,993)**	–
Proceeds from placement of shares		**37,910**	16,500
Dividends paid to minority shareholders		**–**	(15,316)
Proceeds from exercise of share options		**9,230**	–
Proceeds from issue of convertible bonds		**194,500**	–
Net cash generated from/(used in) financing activities		**199,265**	(22,570)
Net increase in cash and cash equivalents		**57,179**	33,359
Cash and cash equivalents at 1 January		**62,405**	27,176
Effect of foreign exchange rate changes		**(4,404)**	1,870
Cash and cash equivalents at 31 December		**115,180**	62,405
Analysis of balances of cash and cash equivalents			
Cash and bank balances of continuing operations		**115,180**	30,683
Cash and bank balances included in assets held for sale	25	**–**	31,722
		115,180	62,405

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

Dynamic 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 (the "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 also engaged in the generation and sale of electricity through a coal-fired electricity power plant (the "Power Plant Operation" or the "Discontinued Operations"), which was disposed of in the current year (see notes 10 and 35). The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

Pursuant to the special resolution passed in November 2007, the Company announced that the name of the Company has been changed from "Everbest Energy Holdings Limited 恒發能源控股有限公司" to "Dynamic Energy Holdings Limited 合動能源控股有限公司" with effect from 23 November 2007.

The financial statements on pages 22 to 92 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 (the "Listing Rules").

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 2 April 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2007, the Group has adopted all the new and amended HKFRSs which are first effective for accounting periods beginning on 1 January 2007 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.

In accordance with the amendment HKAS 1 *Presentation of Financial Statements – Capital Disclosures*, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are detailed in note 40.

Notes to the Financial Statements

For the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

HKFRS 7 *Financial Instruments: Disclosures* is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends disclosure requirements previously set out in HKAS 32 *Financial Instruments: Presentation and Disclosures* and has been adopted by the Group in its 2007 consolidated financial statements. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

– a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. These new disclosures are set out in note 39. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items. These disclosures are provided throughout these financial statements, and in particular, in note 39 to the financial statements.

The first-time application of HKAS 1 (Amendment) and HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items. Accordingly, no adjustments on prior periods are required.

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amended)	Share-based Payment – Amendments Relating to Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Group's financial statements.

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 under the historical cost convention except for certain financial 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 Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries (Continued)

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.

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 interest is 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 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Foreign currency translation (Continued)

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.

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 HK$. Assets and liabilities have been translated into HK$ at the closing rate at the balance sheet date. Income and expenses have been converted into HK$ 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 HK$ 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.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, 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 the meters readers during the year and the 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. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

3.6 Borrowing costs

All borrowing costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 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 (See 3.12).

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 income statement.

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.

3.8 Intangible assets (other than goodwill and mining rights)

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 method over the 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 3.12. Amortisation commences when the intangible assets are available for use.

3.9 Prepaid lease payments

Prepaid lease payments are up-front payments to acquire the long term interests in usage of land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line method for a period 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.

3.10 Mining rights

Mining rights are stated at cost less accumulated amortisation and any identified impairment and are amortised using units-of-production method over the proven and reserves of the coal mine.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 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, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their estimated 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' estimated 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.

Construction in progress, which mainly represents leasehold improvements on buildings, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Impairment of assets

Goodwill arising on an acquisition of subsidiaries, other intangible assets, mining rights, prepaid lease payments, property, plant and equipment and interests in subsidiaries 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.

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 inflow 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. Whilst an impairment loss on other assets 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 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 right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line method 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. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.14 Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount is 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. These assets (and disposal groups), other than financial assets, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

3.15 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.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Financial assets (Continued)

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 rate 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.

3.16 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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 fiscal 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 tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the consolidated financial statements and 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.

3.18 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.

3.19 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 share premium (net of any related income tax benefits), to the extent they are incremental costs directly attributable to the equity transaction.

Notes to the Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 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 the 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 and its directors.

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)

3.21 Financial liabilities

The Group's financial liabilities include bank loans, loans from minority shareholders, accounts payable, other payables and accruals, compound derivative financial instruments, convertible bonds and promissory notes.

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.

Accounts and other payables

Accounts payable, other payables and accruals 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 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 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)

3.21 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 rate 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.

The current and non-current classification of the derivative component follows the classification of the convertible bond even though the derivative component is presented separately from the liability components on the balance sheet.

Promissory notes

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

3.22 Segment reporting

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

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Segment assets consist primarily of property, plant and equipment, prepaid lease payments, 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 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Related parties

A party is 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.

3.24 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 and judgements 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 estimates 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 at least an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.7. The recoverable amounts of cash-generating unit, to which the goodwill is allocated, are determined based on value-in-use calculations. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Depreciation

The Group depreciates the property, plant and equipment on a straight-line method over the estimated useful lives ranging between 5 and 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 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.

There is no impact of such a change of enterprise income tax on the Group because there are no material temporary differences. Therefore, no deferred taxation has been provided for the year.

Notes to the Financial Statements

For the year ended 31 December 2007

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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.

The embedded derivatives of convertible bonds consisting of the conversion and redemption options have been separated from the host debt contract and accounted for as derivative financial instruments (note 28). The fair value of these derivative financial instruments is determined by using valuation techniques. The Group used its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and each balance sheet date. The valuation model requires the input of subjective assumptions, including the stock price, expected volatility, risk free rate and expected life. Changes in subjective input assumptions can materially affect the fair value estimate.

(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.

(viii) Impairment of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

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	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue/Turnover						
Sale of coal	**564,757**	102,599	**–**	–	**564,757**	102,599
Sale of electricity	**–**	–	**58,925**	159,936	**58,925**	159,936
	564,757	102,599	**58,925**	159,936	**623,682**	262,535
Other income						
Interest income*	**4,677**	1,672	**27**	1,099	**4,704**	2,771
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs *(note 35(a) and (b))*	**21,983**	–	**–**	–	**21,983**	–
Others	**4,375**	94	**–**	990	**4,375**	1,084
	31,035	1,766	**27**	2,089	**31,062**	3,855

* During the year ended 31 December 2007, approximately HK$4.2 million (2006: approximately HK$1.6 million) included in interest income of continuing operations represented interest received or receivable arising from other receivables of approximately HK$32.0 million (2006: approximately HK$64.4 million) computed using the effective interest method, which were lent to independent third parties and bore interest at fixed rates ranging from 5.58% to 12.83% per annum (2006: 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 holding of equity investments.

There was no inter-segment sale and transfer during the year (2006: Nil).

During the financial year, the Group disposed of the Power Plant Operation (see notes 10 and 35).

Notes to the Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION (Continued)

(a) Business segments

	Continuing operations						Discontinued operations			
	Production and sale of coal		Others		Total		Generation and sale of electricity		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**564,757**	102,599	**–**	–	**564,757**	102,599	**58,925**	159,936	**623,682**	262,535
Segment results	**200,843**	44,740	**(20,031)**	(10,453)	**180,812**	34,287	**13,049**	3,487	**193,861**	37,774
Gain/(Loss) on disposal of subsidiaries	**–**	–	**18,075**	(2,336)	**18,075**	(2,336)	**–**	27,757	**18,075**	25,421
Operating profit/(loss)	**200,843**	44,740	**(1,956)**	(12,789)	**198,887**	31,951	**13,049**	31,244	**211,936**	63,195
Change in fair value of compound derivative financial instruments	**–**	–	**58,150**	–	**58,150**	–	**–**	–	**58,150**	–
Finance costs	**(9,562)**	(1,015)	**(26,066)**	(5,246)	**(35,628)**	(6,261)	**(2,652)**	(7,892)	**(38,280)**	(14,153)
Profit/(Loss) before income tax	**191,281**	43,725	**30,128**	(18,035)	**221,409**	25,690	**10,397**	23,352	**231,806**	49,042
Income tax expense	**(71,945)**	(16,240)	**–**	–	**(71,945)**	(16,240)	**(354)**	(892)	**(72,299)**	(17,132)
	119,336	27,485	**30,128**	(18,035)	**149,464**	9,450	**10,043**	22,460	**159,507**	31,910
Loss on remeasurement to fair value less costs to sell	**–**	–	**–**	–	**–**	–	**(9,230)**	(111,044)	**(9,230)**	(111,044)
Profit/(Loss) for the year	**119,336**	27,485	**30,128**	(18,035)	**149,464**	9,450	**813**	(88,584)	**150,277**	(79,134)
Segment assets/ Total assets	**973,830**	597,391	**329,611**	11,649	**1,303,441**	609,040	**–**	298,985	**1,303,441**	908,025
Segment liabilities	**368,481**	70,146	**10,965**	1,153	**379,446**	71,299	**–**	168,110	**379,446**	239,409
Unallocated liabilities	**–**	–	**–**	–	**525,781**	375,990	**–**	–	**525,781**	375,990
Total liabilities	**368,481**	70,146	**10,965**	1,153	**905,227**	447,289	**–**	168,110	**905,227**	615,399
Depreciation	**7,470**	228	**32**	384	**7,502**	612	**–**	21,688	**7,502**	22,300
Amortisation of prepaid lease payments	**258**	42	**–**	–	**258**	42	**–**	483	**258**	525
Amortisation of mining rights	**11,005**	251	**–**	–	**11,005**	251	**–**	–	**11,005**	251
Capital expenditure – addition of property, plant and equipment, prepaid lease payments, mining rights and other intangible assets	**72,414**	2,163	**157**	17	**72,571**	2,180	**–**	1,820	**72,571**	4,000
Change in fair value of compound derivative financial instruments *(note 28)*	**–**	–	**(58,150)**	–	**(58,150)**	–	**–**	–	**(58,150)**	–
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs *(note 34)*	**–**	–	**(21,983)**	–	**(21,983)**	–	**–**	–	**(21,983)**	–
Impairment loss on goodwill *(note 19)*	**17,171**	–	**–**	–	**17,171**	–	**–**	–	**17,171**	–
Impairment loss on other receivables	**17,130**	–	**–**	–	**17,130**	–	**–**	–	**17,130**	–

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	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest charge on bank loans – wholly repayable within five years	**9,562**	1,082	**2,652**	7,892	**12,214**	8,974
Effective interest expense on convertible bonds repayable within five years	**7,400**	283	**–**	–	**7,400**	283
Effective interest expense on promissory notes repayable within five years	**18,666**	4,896	**–**	–	**18,666**	4,896
Interest expenses on financial liabilities stated at amortised cost	**35,628**	6,261	**2,652**	7,892	**38,280**	14,153

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8. PROFIT BEFORE INCOME TAX

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

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cost of inventories sold	**272,223**	50,338	**42,303**	143,147	**314,526**	193,485
Auditors' remuneration	**843**	600	**–**	–	**843**	600
Depreciation*	**7,502**	612	**–**	21,688	**7,502**	22,300
Operating lease charges on land and buildings	**1,050**	180	**–**	573	**1,050**	753
Amortisation of prepaid lease payments	**258**	42	**–**	483	**258**	525
Amortisation of mining rights	**11,005**	251	**–**	–	**11,005**	251
Amortisation of intangible assets	**94**	–	**–**	–	**94**	–
Employee benefit expenses (including directors' remuneration and retirement benefit scheme contributions) *(note 13)*	**93,681**	19,894	**5,079**	14,500	**98,760**	34,394
Loss on remeasurement to fair value less costs to sell	**–**	–	**9,230**	111,044	**9,230**	111,044
Loss on disposals of property, plant and equipment	**2,155**	18	**–**	85	**2,155**	103
Impairment loss on goodwill	**17,171**	–	**–**	–	**17,171**	–
Impairment loss on other receivables	**17,130**	–	**–**	–	**17,130**	–
Change in fair value of compound derivative financial instruments	**(58,150)**	–	**–**	–	**(58,150)**	–
Loss on derecognition of promissory notes	**18,659**	–	**–**	–	**18,659**	–

* Depreciation of approximately HK$4.9 million (2006: approximately HK$14.8 million) has been included in cost of sales and approximately HK$2.6 million (2006: approximately HK$7.5 million) in administrative expenses.

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 (2006: Nil).

Pursuant to various approval documents issued by the Fujian Provincial Government and the circular of Min Guo Shui Xian (2004) Number 47（閩國稅函【2004】47號）issued by the Fujian Office of State Tax Bureau on 3 February 2004, 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 is subject to a preferential corporate income tax rate of 15% from February 2004.

Corporate income tax arising from other regions in the PRC is calculated at the statutory income tax rate of 33% (2006: 33%) 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**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax						
– PRC income tax	**71,945**	16,240	**354**	892	**72,299**	17,132

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

	2007	2006
	HK$'000	*HK$'000*
Profit/(Loss) before income tax		
Continuing operations	**221,409**	25,690
Discontinued operations	**1,167**	(87,692)
	222,576	(62,002)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profit/(loss) in the tax jurisdictions	**74,257**	(4,074)
Tax effect of non-taxable income	**(22,317)**	(5,375)
Tax effect of non-deductible expenses	**19,060**	22,905
Tax losses not recognised	**1,299**	3,676
Income tax expense	**72,299**	17,132

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10. DISCONTINUED OPERATIONS

The Company had a wholly owned subsidiary, namely Royce Group Limited ("RGL"), which is an investment holding company holding indirectly 53.1% equity interest in Longyan Hengfa (collectively referred to as the "RGL Group"). The RGL Group is principally engaged in the management and Power Plant Operation. The board of directors considers that the policy of the PRC government in respect of the gradual closing of small scale coal-oriented electricity power plants in the PRC, together with the ongoing increasing emphases on environmental protection consistently advocated 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. As a consequence, the RGL Group, being referred to as the Discontinued Operations in the financial statements, was disposed of in May 2007.

The Group consolidated the unaudited consolidated financial statements of the Discontinued Operations for the period from 1 January 2007 to 31 May 2007. 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:

	Period from 1 January 2007 to 31 May 2007 *HK$'000*	Year ended 31 December 2006 *HK$'000*
Revenue	**58,925**	159,936
Other income	**27**	2,089
Expenses	**(48,555)**	(166,430)
Gain recognised on disposal of subsidiaries	**–**	27,757
Income tax expenses	**(354)**	(892)
	10,043	22,460
Loss on remeasurement to fair value less costs to sell	**(9,230)**	(111,044)
Profit/(Loss) for the period/year from discontinued operations	**813**	(88,584)
Operating cash flows	**3,154**	15,732
Investing cash flows	**739**	(806)
Financing cash flows	**(24,875)**	(2,916)
Total cash flows	**(20,982)**	12,010

11. PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of approximately HK$134.2 million (2006: consolidated loss of approximately HK$82.7 million), a profit of approximately HK$31.8 million (2006: a loss of approximately HK$151.2 million) has been dealt with in the financial statements of the Company.

12. EARNINGS/(LOSS) PER SHARE – GROUP

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

	2007	2006
	HK$'000	*HK$'000*
Profit/(Loss)		
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per share	**134,195**	(82,683)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**7,400**	283
Change in fair value of compound derivative financial instruments	**(58,150)**	–
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of diluted earnings/(loss) per share	**83,445**	(82,400)

	2007	2006
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**619,023**	399,246
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**31,714**	743
Convertible bonds	**90,007**	10,803
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**740,744**	410,792

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

The diluted earnings per share attributable to the equity holders of the Company for the year ended 31 December 2007 is based on the profit attributable to the equity holders of the Company of approximately HK$83.4 million and on the weighted average of 740,744,000 ordinary shares outstanding during the year.

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

From continuing operations

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

	2007	2006
	HK$'000	*HK$'000*
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per share	**134,195**	(82,683)
Profit/(Loss) for the year from discontinued operations	**813**	(88,584)
Less: Profit for the year attributable to minority interests from discontinued operations	**454**	304
Profit/(Loss) for the year attributable to the equity holders of the Company from discontinued operations	**359**	(88,888)
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per share from continuing operations	**133,836**	6,205
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**7,400**	283
Change in fair value of compound derivative financial instruments	**(58,150)**	–
Profit for the purpose of diluted earnings per share attributable to the equity holders of the Company from continuing operations	**83,086**	6,488

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

From continuing operations (Continued)

The diluted earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2007 is based on the profit attributable to the equity holders of the Company of approximately HK$83.1 million and on the weighted average of 740,744,000 ordinary shares outstanding during the year.

In calculating 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 issue of 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 ended 31 December 2006, being the weighted average number of 399,246,000 ordinary shares used in basic earnings per share calculation and adjusted for the effect of the share options of 743,000 shares.

From discontinued operations

Basic earnings per share attributable to the equity holders of the Company from discontinued operations is HK0.06 cents per share (2006: loss of HK22.26 cents per share), based on the profit for the year attributable to the equity holders of the Company from discontinued operations of approximately HK$0.4 million (2006: loss of approximately HK$88.9 million) and the denominators detailed above.

The diluted earnings per share attributable to the equity holders of the Company from discontinued operations for the year ended 31 December 2007 is HK0.05 cents per share, based on the profit attributable to the equity holders of the Company of approximately HK$0.4 million and on the weighted average of 740,744,000 ordinary shares outstanding during the year.

No diluted loss per share attributable to the equity holders of the Company from discontinued operations is presented for the year ended 31 December 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	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Wages, salaries, allowance and other benefit in kind	**93,622**	14,668	**5,079**	14,411	**98,701**	29,079
Share options granted to directors and employees	**–**	5,216	**–**	–	**–**	5,216
Retirement benefit scheme contribution - defined contribution plans	**59**	10	**–**	89	**59**	99
	93,681	19,894	**5,079**	14,500	**98,760**	34,394

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*
2007						
Executive Directors						
Chan Chun Keung ("Mr. Chan")#	–	–	–	–	–	–
Judy Leissner#	–	–	–	–	–	–
Lam Chung Chak#	–	–	–	–	–	–
Chan Kin#	–	–	–	–	–	–
Li Wan Luk#	–	–	–	–	–	–
Bao Hongkai ("Mr. Bao")	–	82	–	103	7	192
Wu Jiahong ("Mr. Wu")	–	1,629	–	–	12	1,641
Cheng Koon Cheung	240	–	–	–	–	240
Independent Non-Executive Directors						
Chan Kin Sang	120	–	–	–	–	120
Ng Wing Hang, Patrick	120	–	–	–	–	120
Choi Man Chau, Michael	120	–	–	–	–	120
	600	1,711	–	103	19	2,433

resigned during the year ended 31 December 2007

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
2006						
Executive Directors						
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*	–	–	–	–	–	–
Mr. Bao**	–	–	525	–	–	525
Mr. Wu**	–	–	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

* resigned during the year ended 31 December 2006

** newly appointed during the year ended 31 December 2006

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 (2006: Nil).

During the year ended 31 December 2007, no share options were granted to the directors in respect of their services to the Group. 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 32 to the financial statements.

There was no arrangement under which a director waived or agreed to waived any remuneration during the year (2006: Nil).

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15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included two (2006: four) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments payable to the remaining three (2006: one) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,031**	303
Retirement benefit scheme contributions	**21**	10
	2,052	313

The emoluments fell within the following bands:

	2007	2006
Emolument bands		
Nil – HK$1,000,000	**2**	1
HK$1,000,001 – HK$1,500,000	**1**	–

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 (2006: Nil).

No share options have been granted to the remaining three (2006: one) highest paid individuals of the Group to subscribe for ordinary shares of the Company for the year (2006: Nil).

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$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2006							
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	18,375	4,534	6,236	1,910	4,445	–	35,500
Additions	–	210	403	2,798	529	–	3,940
Disposals	–	–	(54)	(84)	–	–	(138)
Reclassified as assets held for sale *(note 25)*	(98,353)	(176,610)	–	(1,515)	–	–	(276,478)
Depreciation	(6,716)	(14,735)	(36)	(473)	(340)	–	(22,300)
Disposal of subsidiaries	–	–	–	(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
Year ended 31 December 2007							
Opening net book value	**18,301**	**4,563**	**6,549**	**3,016**	**4,909**	**–**	**37,338**
Exchange difference	**2,428**	**440**	**911**	**215**	**357**	**–**	**4,351**
Acquisitions of subsidiaries *(note 34)*	**35,787**	**3,322**	**15,002**	**1,057**	**2,400**	**–**	**57,568**
Additions	**23,020**	**2,158**	**14,610**	**2,227**	**4,710**	**10,729**	**57,454**
Disposals	**(379)**	**(186)**	**(2,962)**	**(803)**	**(839)**	**–**	**(5,169)**
Transfer	**10,706**	**23**	**–**	**–**	**–**	**(10,729)**	**–**
Depreciation	**(2,443)**	**(805)**	**(1,816)**	**(760)**	**(1,678)**	**–**	**(7,502)**
Closing net book value	**87,420**	**9,515**	**32,294**	**4,952**	**9,859**	**–**	**144,040**
At 31 December 2007							
Cost	**99,354**	**11,461**	**37,222**	**6,269**	**13,579**	**–**	**167,885**
Accumulated depreciation	**(11,934)**	**(1,946)**	**(4,928)**	**(1,317)**	**(3,720)**	**–**	**(23,845)**
Net book value	**87,420**	**9,515**	**32,294**	**4,952**	**9,859**	**–**	**144,040**

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17. PREPAID LEASE PAYMENTS – GROUP

	2007	2006
	HK$'000	*HK$'000*
Opening net book amount	**1,477**	6,858
Acquisition of subsidiaries *(note 34)*	**–**	1,518
Exchange difference	**91**	275
Reclassified as assets held for sale *(note 25)*	**–**	(6,649)
Amortisation charge for the year	**(258)**	(525)
Closing net book amount	**1,310**	1,477

All prepaid lease payments at 31 December 2007 and 2006 for leasehold interests in land are held in the PRC on medium-term leases.

At 31 December 2006 and 2007, 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 years.

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**397,801**	397,801
Due from subsidiaries	**113,242**	110,151
Less: Provision for impairment	**–**	(57,997)
Less: Reclassified as assets held for sale *(note 25)*	**–**	(40,393)
	113,242	11,761
Due to subsidiaries	**–**	(40,393)
Less: Reclassified as liabilities associated with assets held for sale *(note 25)*	**–**	40,393
	–	–
	511,043	409,562

Amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable in the next twelve months after the balance sheet dates. In the opinion of the directors, the settlement of these amounts due from subsidiaries is neither planned nor likely to occur in the foreseeable future and in substance, these amounts are extensions of the Group's investments in these subsidiaries.

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results for the year or form 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 2007 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
Dynamic Energy Management Limited (formerly known as Everbest Energy Management Limited)	Hong Kong	1 share of HK$1 each	100	Investment holding
Indirectly held				
Popular Sky Coal Industrial Limited	Hong Kong	1 share 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
Shenzhen Zhongzhou Energy Company Limited	PRC	RMB10,000,000	90	Investment holding
Xingyun Coal Industry Company Limited	PRC	RMB60,000,000	90	Production and sale of coal
Xiangyang Coal Industry Company Limited	PRC	RMB50,000,000	90	Production and sale of coal

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19. GOODWILL – GROUP

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

	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 January	**268,746**	20,910
Acquisition of subsidiaries	**–**	268,746
Impairment loss	**(17,171)**	–
Reclassified as assets held for sale *(note 25)*	**–**	(20,910)
Carrying amount at 31 December	**251,575**	268,746
Closing carrying amount		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(17,171)**	–
Net carrying amount at 31 December	**251,575**	268,746

Goodwill at 31 December 2006 and 2007 arose from the acquisitions of CIL and represented the future economic benefits from the production and sale of coal.

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, covering a detailed five-year budget plan, followed by an extrapolation of discounted cash flows. The Group management's key assumptions were used in the value-in-use calculation of the cash-generating units for the year ended 31 December 2007. The following described each key assumption on which management has based its cash flow projects to undertake impairment testing of goodwill:

Stable net profit margins – Management determined net profit margin based on past experience in this market and its expectations for market development.

Discount rate – The discount rate reflects specific risks relating to the respective industries.

19. GOODWILL – GROUP (Continued)

The discount rate and growth rate used in the cashflow projection are shown as below:

Growth rate	11.0% per annum
Discount rate	8.5% per annum

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.

The coal reserves of certain mines of the Group decreased as a result of continuous depletion of coal. The forecast for the production and sale of coal was adjusted in 2007. This resulted in reduction of goodwill associated with the production and sale of coal. The related impairment loss of approximately HK$17.2 million (2006: Nil) was included under "Other operating expenses" in the consolidated income statement and attributable to the Group's production and sale of coal segment (note 6).

20. MINING RIGHTS – GROUP

	2007	2006
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**25,213**	–
Accumulated amortisation	**(251)**	–
Net carrying amount	**24,962**	–
Net carrying amount at 1 January	**24,962**	–
Additions	**14,867**	–
Acquisition of subsidiaries *(note 34)*	**554,266**	25,213
Amortisation	**(11,005)**	(251)
Exchange difference	**20,779**	–
Net carrying amount at 31 December	**603,869**	24,962
At 31 December		
Gross carrying amount	**615,125**	25,213
Accumulated amortisation	**(11,256)**	(251)
Net carrying amount	**603,869**	24,962

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21. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence	
	2007	2006
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**60**	–
Accumulated amortisation	**–**	–
Net carrying amount	**60**	–
Net carrying amount at 1 January	**60**	–
Additions	**250**	60
Amortisation	**(94)**	–
Exchange difference	**(1)**	–
Net carrying amount at 31 December	**215**	60
At 31 December		
Gross carrying amount	**309**	60
Accumulated amortisation	**(94)**	–
Net carrying amount	**215**	60

22. INVENTORIES – GROUP

	2007	2006
	HK$'000	*HK$'000*
Coal	**6,075**	1,719
Spare part and consumables	**13,198**	223
	19,273	1,942

23. ACCOUNTS RECEIVABLE – GROUP

The Group's sales are billed to the 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 accounts receivable at the balance sheet date is as follows:

	2007	2006
	HK$'000	*HK$'000*
Current – 90 days	**84,145**	58,448

At 31 December 2007, accounts receivable of approximately HK$35.2 million were pledged to secure bank loans of the Group (note 27).

All the accounts receivable were neither past due nor impaired.

24. CASH AND CASH EQUIVALENTS

(a) Group

As at 31 December 2007, included in cash and cash equivalents of the Group is approximately HK$24.6 million (2006: approximately HK$19.3 million) of bank balances denominated in Renminbi ("RMB") placed with the banks in the PRC. RMB is not a freely convertible currency.

(b) Company

	2007	2006
	HK$'000	*HK$'000*
Cash at banks and in hand	**88,000**	2

25. 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 holding indirectly held 53.1% equity interest in Longyan Hengfa, which is principally engaged in the management services 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 dated on 8 February 2007. The net consideration was 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 Discontinued Operations 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 amounting to approximately HK$111.0 million (note 10).

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For the year ended 31 December 2007

25. ASSETS HELD FOR SALE – GROUP (Continued)

Major classes of assets and liabilities of RGL Group 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 19)*	–	20,910	–
Inventories	34,898	34,898	–
Accounts receivable *(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			
Accounts payable *(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	(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**		**–**

25. ASSETS HELD FOR SALE – GROUP (Continued)

(a) Accounts receivable

Accounts receivable generally have credit terms of not more than 90 days. Ageing analysis of the Discontinued Operations' accounts receivable at 31 December 2006, based on invoice date, is as follows:

	2006
	HK$'000
Current – 90 days	21,275

(b) Accounts payable

An ageing analysis of the disposal group's accounts payable at 31 December 2006, based on invoice date, is as follows:

	2006
	HK$'000
Current – 90 days	19,756

(c) Bank loans

At 31 December 2006, the Discontinued Operations' bank loans were repayable as follows:

	2006
	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 bore interest at fixed rates, which were ranging from 5.58% to 7.96% per annum at 31 December 2006.

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For the year ended 31 December 2007

25. ASSETS HELD FOR SALE – GROUP (Continued)

(c) Bank loans (Continued)

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

The Discontinued Operations' bank loans at 31 December 2006 were secured by:

(i) pledge of certain of the Discontinued Operations' 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 Everbest Century Limited ("ECL"); and

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

26. ACCOUNTS PAYABLE – 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 accounts payable at the balance sheet date is as follows:

	2007	2006
	HK$'000	*HK$'000*
Current – 90 days	**12,908**	3,073
91 – 180 days	**1,112**	–
Over 180 days	**576**	–
	14,596	3,073

27. BANK LOANS – GROUP

	2007 HK$'000	2006 HK$'000
Bank loans repayable within one year and classified as current liabilities	**83,737**	46,000
Analysed as follows:		
Secured	**30,347**	–
Unsecured	**53,390**	46,000
	83,737	46,000

At 31 December 2007, bank loans of approximately HK$30.3 million were denominated in RMB and were secured by certain accounts receivable (note 23), bear interest at fixed rate of 8.4% per annum; bank loans of approximately HK$53.4 million (2006: approximately HK$46.0 million) were denominated in RMB and were unsecured, bear interest at fixed rates ranging from 6.73% to 11.32% per annum (2006: 6.12% to 12.83% per annum) and of approximately HK$21.4 million (2006: approximately HK$46.0 million) and HK$32.0 million (2006: Nil) were guaranteed by independent third parties and a director of a subsidiary respectively.

28. CONVERTIBLE BONDS – GROUP AND COMPANY

On 24 October 2006, the Company issued convertible bonds ("CB1") in the principal amount of HK$20,000,000 as part of the consideration for the acquisition of CIL. CB1 bear interest at 1% per annum with maturity date of 3 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.

On 16 November 2007, the Company issued a zero coupon convertible bonds ("CB2") with principal amount of HK$230,000,000 as for the settlement of the promissory notes issued by the Company. CB2 were issued with a conversion price of HK$1.1 per share and will mature on 16 November 2010. The conversion price is subject to adjustment for consolidations, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset.

As at 31 December 2007, the holder of CB1 and CB2 is Dragon Rich Resources Limited, a substantial shareholder and connected party of the Company.

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For the year ended 31 December 2007

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

On 10 December 2007, the Company issued a 2% coupon convertible bonds ("CB3") with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000). CB3 were issued with a conversion price of HK$1.8 per share and will mature on 10 December 2010. The conversion price is subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. Both the Company and the holders of CB3 have redemption options. On 10 December 2009, the holders of CB3 will have the right at such holders' options, to require the Company to redeem all or some only of the CB3. On or at any time after 10 December 2009 and prior to the maturity date, the Company may redeem all or some only of the CB3 at their early redemption amount on the date fixed for such redemption if the average closing price per share for 20 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, is at least 160% of the early redemption amount in effect on such trading day divided by the conversion ratio. The CB3 was secured by the Company's entire interest in CIL and Zhong Yue Energy Development (Shenzhen) Company Limited.

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 of CB1, representing the value of the equity conversion component, is included in shareholders' equity in other reserves. The fair value of compound derivative components of CB2 and CB3, consisting of the conversion option and the redemption options, was estimated using financial models. The residual amounts of CB2 and CB3 represent the liability component. The compound derivative component is carried at fair value on the balance sheet, with any changes in fair value being charged or credited to the income statement in the period when change occurs.

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

	2007				2006
	CB1	**CB2**	**CB3**	**Total**	CB1 & Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Proceeds of issue	**20,000**	**230,000**	**194,500**	**444,500**	20,000
Equity component	**(4,582)**	**–**	**–**	**(4,582)**	(4,582)
Compound derivative component on initial recognition	**–**	**(163,162)**	**(53,794)**	**(216,956)**	–
Liability component on initial recognition	**15,418**	**66,838**	**140,706**	**222,962**	15,418
Accumulated payment of interest	**(200)**	**–**	**–**	**(200)**	–
Accumulated interest expense	**1,889**	**4,189**	**1,605**	**7,683**	283
Liability component at 31 December	**17,107**	**71,027**	**142,311**	**230,445**	15,701

No conversion of the convertible bonds has occurred during the years ended 31 December 2006 and 2007.

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Compound derivative financial instrument – classified as non-current liabilities

	2007	2006
	HK$'000	*HK$'000*
Initial recognition upon issuance of bonds	**216,956**	–
Fair value gain *(note 8)*	**(58,150)**	–
At 31 December	**158,806**	–

As the fair value of the redemption option asset held by the Company is not significant, it is not accounted for separately.

At 31 December 2007, the compound derivative financial instruments were revalued by BMI Appraisals Limited. The fair value of the compound derivative component of the CB2 was calculated using the Binomial model. The fair value of the compound derivative components of CB3 was calculated using Binomial model, Hull-White model and Trinomial model. The major inputs used in the models as at 16 November 2007, 10 December 2007 and 31 December 2007 as follows:

	CB2 16 November 2007	**CB3 10 December 2007**	**CB2 and CB3 31 December 2007**
Stock price	HK$1.60	HK$.1.58	HK$1.35
Expected volatility	88.87%	89.23%	89.91%
Risk free rate	2.705%	2.239%	2.779%
Expected life	36 months	36 months	35 months

Any changes in the major inputs into the models will result in changes in the fair value of the compound derivative components. The change in the fair value of the compound derivative components from initial recognition dates to 31 December 2007 resulted in a fair value gain of approximately HK$58.2 million, which has been recorded as the "Change in fair value of compound derivative financial instruments" in the income statement for the year ended 31 December 2007.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rates of 10.00%, 50.97% and 20.80% to the liability components of CB1, CB2 and CB3 respectively.

Notes to the Financial Statements

For the year ended 31 December 2007

29. 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 1% per annum and are repayable on 31 May 2008 and were classified as non-current liabilities as at 31 December 2006 accordingly.

On 16 November 2007, the Company issued CB2 to the holder of the promissory notes as a consideration for refinancing.

	2007	2006
	HK$'000	*HK$'000*
Fair value of promissory notes at date of issue	**267,851**	267,851
Accumulated interest expense	**23,562**	4,896
Accumulated payment of interest	**(3,079)**	–
Proceeds of issuance of CB2 for settlement	**(230,000)**	–
Repayment for outstanding balance	**(76,993)**	–
Loss on derecognition of promissory notes	**18,659**	–
At 31 December	**–**	272,747

30. DEFERRED TAX

The Group has tax losses arising in Hong Kong of approximately HK$1.3 million (2006: approximately HK$4.7 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 and the unpredictability of future profits.

At 31 December 2007, there is no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

31. SHARE CAPITAL

	Notes	2007 Number of shares	2007 HK$'000	2006 Number of shares	2006 HK$'000
Authorised:					
As at 1 January, ordinary shares of HK$0.2 each (2006: HK$0.2 each)		**1,000,000,000**	**200,000**	1,000,000,000	200,000
Sub-division of ordinary shares to HK$0.1 each	*(d)(iii)*	**1,000,000,000**	**–**	–	–
Increased in authorised ordinary shares	*(d)(iv)*	**1,000,000,000**	**100,000**	–	–
As 31 December, ordinary shares of HK$0.1 each (2006: HK$0.2 each)		**3,000,000,000**	**300,000**	1,000,000,000	200,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.2 each (2006: HK$0.2 each)		**540,862,614**	**108,173**	375,862,614	75,173
Issue of ordinary shares for acquisition of CIL	*(a)*	**–**	**–**	90,000,000	18,000
Placement of new ordinary shares of HK$0.2 each (2006: HK$0.2 each)	*(b)*	**100,000,000**	**20,000**	75,000,000	15,000
Exercise of share options for new ordinary shares of HK$0.2 each	*(c)*	**500,000**	**100**	–	–
Capital reorganisation	*(d)(i)*	**–**	**(64,137)**	–	–
Exercise of share options for new ordinary shares of HK$0.1 each	*(c)*	**25,500,000**	**2,550**	–	–
		666,862,614	**66,686**	540,862,614	108,173

Notes:

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

(b) Pursuant to an ordinary resolution, 100,000,000 new ordinary shares of HK$0.2 each (2006: 75,000,000 new ordinary shares of HK$0.2 each) were issued at HK$0.38 per share (2006: HK$0.22 per share) for cash for the working capital of the Group to support its ongoing operations during the year. The related share issue expenses of approximately HK$0.09 million were dealt with in the share premium account.

(c) During the year, 500,000 and 25,500,000 share options were exercised at the subscription price of HK$0.355 per share, giving rise to the issue of 500,000 new ordinary shares of HK$0.2 each and 25,500,000 new ordinary shares of HK$0.1 each respectively for a total consideration of approximately HK$9.2 million. Accordingly, additional share capital of approximately HK$2.6 million and share premium of approximately HK$6.6 million, before the amount transferred from share option reserve, is resulted.

Notes to the Financial Statements

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31. SHARE CAPITAL (Continued)

Notes: (Continued)

(d) Pursuant to a special resolution passed on 1 November 2007, the capital reorganisation was approved in the following manner (i) the nominal value of issued ordinary shares of HK$0.2 each was reduced from HK$0.2 each to HK$0.1 each by the cancellation of the paid-up capital of HK$0.1 on each issued ordinary share so that the existing issued share capital was reduced by approximately HK$64.1 million. The approximately HK$64.1 million arising from the reduction of capital was transferred to the contributed surplus; (ii) the share premium was reduced by approximately HK$157.3 million. The approximately HK$157.3 million arising from the reduction of share premium was used to eliminate the accumulated losses of the Company; (iii) every authorised but unissued ordinary share of HK$0.2 each was sub-divided into two new ordinary shares of HK$0.1 each; and (iv) the authorised share capital of the Company was increased from HK$200 million divided into 2,000,000,000 ordinary shares to HK$300 million divided into 3,000,000,000 ordinary shares.

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

32. 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 adoption of the Scheme.

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.

32. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year *(note (i))*	At 31 December 2007	Date of grant of share options *(note (ii))*	Exercise period of share options	Exercise price of share options *(note (iii))*
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	–	(26,000,000)	**3,750,000**	30 November 2006	30 November 2006 to 20 October 2014	0.355
	37,250,000	–	(26,000,000)	**11,250,000**			

Notes:

(i) In respect of the share options exercised in the current financial year, the weighted average share price of the Company at the dates of exercise was HK$1.511 per share. The share options exercised during the year resulted in the issue of 26,000,000 (2006: Nil) ordinary shares of the Company (note 31(c)).

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

(iii) 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.

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32. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted in 2006 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 in past 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.

No share options has been granted during the year ended 31 December 2007. The fair value of the share options granted during the year ended 31 December 2006 was HK$0.14 per option. In total, approximately HK$5.2 million of employee compensation expense was included in the consolidated income statement for 2006, the corresponding amount of which was credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

At 31 December 2007, the Company had 11,250,000 (2006: 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 11,250,000 (2006: 37,250,000) additional ordinary shares of the Company and additional share capital of approximately HK$1.1 million (2006: approximately HK$7.5 million) and share premium of approximately HK$2.9 million (2006: approximately HK$5.8 million), before issue expenses.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity 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 (i) 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; and (ii) the capital reorganisation as detailed in note 31(d) to the financial statements.

In accordance with the relevant PRC regulations, 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, certain subsidiaries of the Group are required to make a transfer to other reserve based on RMB15 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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33. 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 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 and 1 January 2007	156,771	50	2,643	5,216	4,582	(157,272)	11,990
Placement of shares *(note 31(b))*	17,910	–	–	–	–	–	17,910
Exercise of share options *(note 31(c))*	10,220	–	–	(3,640)	–	–	6,580
Capital reorganisation							
– Reduction of share capital *(note 31(d))*	–	–	64,137	–	–	–	64,137
– Reduction of share premium *(note 31(d))*	(157,272)	–	–	–	–	157,272	–
Net profit for the year	–	–	–	–	–	31,794	31,794
At 31 December 2007	**27,629**	**50**	**66,780**	**1,576**	**4,582**	**31,794**	**132,411**

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 33(a) and represents (i) 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 therefore; and (ii) the capital reorganisation as detailed in note 31(d) to the financial statements. 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 33(a) above.

34. BUSINESS COMBINATIONS

(a) On 17 May 2007, the Group acquired 100% entire paid-up capital of Xingyun Coal Industry Company Limited ("Xingyun Coal"), a company incorporated in the PRC, at a consideration of RMB140 million (equivalent to approximately HK$142.7 million) through Jinfeng Industrial and Trading Company Limited ("Jinfeng"), a 90% indirectly-owned subsidiary of the Company. As at the date of acquisition, Xingyun Coal was principally engaged in the production and sale of coal.

Details of the net assets acquired and excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs are as follows:

	HK$'000
Fair value of net assets acquired	147,333
Total consideration	(142,688)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs	4,645

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

	Fair value	**Acquiree's carrying amount**
	HK$'000	*HK$'000*
Property, plant and equipment	16,821	16,821
Mining rights	129,744	145,949
Inventories	768	768
Net assets acquired	147,333	163,538
Total consideration satisfied by:		
Cash		142,688
Net cash outflow arising on acquisition:		
Cash consideration paid		142,688

Since the acquisition, the subsidiary contributed approximately HK$36.7 million to the Group's turnover and HK$8.7 million to the profit for the year ended 31 December 2007.

Xingyun Coal did not commence its operation before 17 May 2007. No pro forma information is available for the revenue and profit of the Group for the year ended 31 December 2007 is available had the combination taken place at 1 January 2007.

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34. BUSINESS COMBINATIONS (Continued)

(b) On 25 July 2007, the Group acquired 100% entire paid-up capital of Xiangyang Coal Industry Company Limited ("Xiangyang Coal"), a company incorporated in the PRC, at a consideration of RMB450 million (equivalent to approximately HK$466.0 million) through Shenzhen Zhongzhou Energy Company Limited, a wholly-owned subsidiary of Jinfeng which is in turn 90% owned by the Company. As at the date of acquisition, Xiangyang Coal was principally engaged in the production and sale of coal.

Details of the net assets acquired and excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs are as follows:

	HK$'000
Fair value of net assets acquired	483,277
Total consideration	(465,939)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs	17,338

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	40,747	40,747
Mining rights	424,522	–
Inventories	7,097	7,097
Accounts receivable	3,363	3,363
Prepayments, deposits and other receivables	7,067	7,067
Cash and cash equivalents	9,821	9,821
Accounts payable	(3,263)	(3,263)
Other payables and accruals	(5,836)	(5,836)
Provision for tax	(241)	(241)
Net assets acquired	483,277	58,755
Total consideration satisfied by:		
Cash		465,939
Net cash outflow arising on acquisition:		
Cash consideration paid		221,691
Cash and cash equivalents acquired		(9,821)
		211,870

34. BUSINESS COMBINATIONS (Continued)

(b) (Continued)

At 31 December 2007, the remaining unpaid consideration of approximately RMB244.2 million (equivalent to approximately HK$252.0 million) was included in "other payables" under non-current liabilities.

Since the acquisition, the subsidiary contributed approximately HK$37.4 million to the Group's turnover and a loss of approximately HK$8.8 million for the year ended 31 December 2007.

Had the combination taken place at 1 January 2007, the revenue and the profit of the Group for the year ended 31 December 2007 would have been approximately HK$569.5 million and HK$151.0 million respectively. 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 2007 nor are they intended to be a projection of future results.

(c) On 24 October 2006, the Group acquired 100% equity interest in CIL, a company incorporated in the British Virgin Islands at a consideration of approximately HK$397.8 million. CIL is an investment company which indirectly held 90% equity interest in Jinfeng which is principally engaged in the production and sale of coal in the PRC.

Details of 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

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34. BUSINESS COMBINATIONS (Continued)

(c) (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
Accounts receivable	38,938	38,938
Prepayments, deposits and other receivables	187,369	187,369
Cash and cash balances	19,424	19,424
Accounts payable	(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 interest (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

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.

35. DISPOSAL OF SUBSIDIARIES

(a) On 8 February 2007, the Company entered into an agreement with Whole Gain International Limited ("Whole Gain"), pursuant to which the Company has agreed to sell and Whole Gain has agreed to purchase the entired issued share capital of RGL. RGL is incorporated in the BVI and is an investment holding company. RGL has (i) 59% equity interest in Concade; (ii) 59% equity interest in ECL; (iii) 53.1% equity interest in Longyan Hengfa; and (iv) 100% equity interest in Royce Properties Limited. The directors of the Company believed that the disposal enabled the Group to streamline the business scope and focus its businesses in product and sale of coal related businesses and not to divert any of its management time and resources in any other investments.

	2007
	HK$'000
Net assets disposed of:	
Property, plant and equipment	**178,693**
Prepaid lease payments	**4,331**
Accounts receivable	**25,234**
Prepayments, deposits and other receivables	**23,065**
Inventories	**15,286**
Cash and cash equivalents	**10,740**
Accounts payable	**(2,395)**
Other payables and accruals	**(10,512)**
Amount due to a director	**(1,480)**
Loans from minority shareholders	**(16,435)**
Provision for tax	**(638)**
Bank loans	**(94,200)**
Minority interests	**(93,387)**
	38,302
Release of exchange fluctuation reserve upon disposal	**(12,435)**
Release of statutory reserve fund upon disposal	**(4,842)**
Gain on disposal of subsidiaries	**18,075**
Total consideration	**39,100**
Satisfied by:	
Cash	**39,100**

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35. DISPOSAL OF SUBSIDIARIES (Continued)

(b) 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 (who has resigned as a director in 2007), pursuant to which RGL has agreed to sell, and Meta Investments has agreed to purchase 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

35. DISPOSAL OF SUBSIDIARIES (Continued)

(c) On 15 November 2006, the Company entered into an agreement with Origin Holdings (HK) Limited ("Origin"), accompany which is beneficially owned by Mrs. Judy Leissner, a director of the Company (who has resigned as a director in 2007), 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
Deposits and other receivables	255
Cash and bank balances	1,535
Accounts payable	(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

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

	2007 ***HK$'000***	2006 *HK$'000*
Cash consideration	**39,100**	88,618
Cash and balances disposed of	**(10,740)**	(1,612)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**28,360**	87,006

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36. OPERATING LEASE COMMITMENTS

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**986**	935
In the second to fifth year inclusive	**316**	1,105
After five years	**117**	206
	1,419	2,246

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 2007 (2006: Nil).

37. CAPITAL COMMITMENTS

At 31 December 2007, 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 (2006: approximately HK$3.5 million).

The Company did not have any significant capital commitments at 31 December 2007 (2006: Nil).

38. 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:

(i) Compensation of key management personnel

	2007	2006
	HK$'000	*HK$'000*
Total remuneration of directors and other members of key management during the year *(note 14)*	**2,433**	2,099

(ii) Issuance of convertible notes

On 16 November 2007, CB2 was issued to Dragon Rich Resources Limited ("Dragon Rich") for settlement of promissory notes. Dragon Rich is a company incorporated in the British Virgin Islands which is beneficially owned as to 40% by Mr. Bao, as to 20% by Mr. Wu, as to 20% by Mr. Xu Lidi ("Mr. Xu") and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao and Mr. Wu were the executive directors of the Company during the year ended 31 December 2007. Mr. Bao, Mr. Wu and Mr. Xu are the directors of Dragon Rich.

39. 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

The carrying amounts of accounts receivable, other receivables and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to its financial assets. The carrying amounts of these financial assets presented in balance sheet are net of impairment losses, if any. The Group minimises its exposure to the credit risk by rigorously selecting the counterparties, performing ongoing credit evaluation on the financial conditions of its debtors and tightly monitoring the ageing of the receivables. Follow-up actions are taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on cash and cash equivalents is limited because all the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties.

(b) Interest rate risk

The interest rates and terms of repayment of the Group's bank loans are disclosed in note 27. The Group's exposures to fair value interest rate risk and cash flow interest rate risk on financial liabilities are minimal. The directors of the Company consider the Group's exposures to cash flow interest rate risk on bank balances as follows:

Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB535,000 (2006: RMB122,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

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39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Foreign currency risk

The sales and purchases of the Group are predominantly in RMB which is the functional currency of the related group entities. The directors of the company therefore are of the opinion that the Group's sensitivity to the change in foreign currency is low and the Group does not hedge its foreign currency risk.

(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 was not disclosed because their carrying value is not materially different from their fair value.

(e) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted payments:

	Group As at 31 December 2007			
	Within three months or on demand *HK$'000*	More than three months but less than six months *HK$'000*	More than six months *HK$'000*	Total *HK$'000*
Accounts payable	12,908	1,112	576	14,596
Other payables and accruals	77,252	19,203	268,395	364,850
Bank loans	83,737	–	–	83,737
Convertible bonds	–	–	456,570	456,570
Total	173,897	20,315	725,541	919,753

	Company As at 31 December 2007			
	Within three months or on demand *HK$'000*	More than three months but less than six months *HK$'000*	More than six months *HK$'000*	Total *HK$'000*
Other payables and accruals	10,949	–	–	10,949
Convertible bonds	–	–	456,570	456,570
Total	10,949	–	456,570	467,519

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39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Liquidity risk (Continued)

	Group As at 31 December 2006			
	Within three months or on demand	More than three months but less than six months	More than six months	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts payable	22,829	–	–	22,829
Other payables and accruals	79,381	–	–	79,381
Amount due to a director	2,087	–	–	2,087
Loans from minority shareholders	15,858	–	–	15,858
Bank loans	119,000	–	46,000	165,000
Convertible bonds	–	–	20,600	20,600
Promissory notes	–	–	317,137	317,137
Total	239,155	–	383,737	622,892

	Company As at 31 December 2006			
	Within three months or on demand	More than three months but less than six months	More than six months	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	969	–	–	969
Amounts due to subsidiaries	40,393	–	–	40,393
Convertible bonds	–	–	20,600	20,600
Promissory notes	–	–	317,137	317,137
Total	41,362	–	337,737	379,099

39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and Company's financial assets and liabilities recognised as at 31 December 2006 and 2007 may also be categorised as follows. See notes 3.15 and 3.21 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivable				
– Accounts receivable	**84,145**	79,723	**–**	–
– Deposits and other receivables	**77,636**	198,883	**24**	–
– Amounts due from subsidiaries	**–**	–	**–**	40,393
– Cash and cash equivalents	**115,180**	62,405	**88,000**	2
	276,961	341,011	**88,024**	40,395
Financial liabilities				
Financial liabilities measured at amortised cost				
– Accounts payable	**14,596**	22,829	**–**	–
– Other payables and accruals	**364,850**	79,381	**10,949**	969
– Amount due to a director	**–**	2,087	**–**	–
– Loan from minority shareholders	**–**	15,858	**–**	–
– Amounts due to subsidiaries	**–**	–	**–**	40,393
– Bank loans	**83,737**	165,000	**–**	–
– Convertible bonds	**230,445**	15,701	**230,445**	15,701
– Promissory notes	**–**	272,747	**–**	272,747
Financial liabilities at fair value through profit and loss				
– Compound derivative financial instruments	**158,806**	–	**158,806**	–
	852,434	573,603	**400,200**	329,810

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40. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity of approximately HK$398.2 million (2006: approximately HK$292.6 million) as capital, for capital management purpose.

41. SUBSEQUENT EVENTS

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

On 3 January 2008, the Company granted 26,850,000 share options under the share option scheme adopted on 20 October 2004 with exercise price of HK$1.376 per share. The offer of a grant of share options is accepted upon payment of a nominal consideration of HK$1. The option period of an option may not end later than 10 years after the date of adoption of the Scheme.