



Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578

Interim Report 2008



The board of directors (the “Board”) of Dynamic Energy Holdings Limited (the “Company”) is pleased to present the unaudited condensed interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (referred to herein as “Interim Financial Statements”).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

The Group is principally engaged in the sales and production of coal in Henan Province, People’s Republic of China (“PRC”). At present, the Group owns five coal mines with total area of approximately 7.7 square kilometer with total coal reserves of approximately 35 million tons (“mt”) as of the end of June 2008 and have produced approximately 1 mt of coal for the first half year of 2008. The Group aims to continue to be a committed coal mine operator with a meaningful provincial niche and stable clientele established in Henan Province.

The rapid growth of the overall Chinese economy in the first half year of 2008 driven strong demand for coal and other energy related products. Thus it pushed the selling price of coal to a new level, especially the thermal coal for the power industry and also created favorable conditions for the Group’s development.

### Business and Financial Review

#### *Revenue*

The Group’s turnover from continuing operation for the six months ended 30 June 2008 amounted to approximately HK\$448.4 million, representing a 112.0% increase from approximately HK\$211.5 million for the six months ended 30 June 2007. Increase in turnover was attributed to the increased coal demand by the Group’s key customers and the continuing growth in average selling price of coal. In the first half year of 2008, the Group’s average net selling price of coal was RMB373 per ton, representing an increase of 23.9% as compared with the same period of 2007. The Group was able to cater for the increase in demand from its major customers due to the increase in number of coal mines hence production volume from 0.5 mt for the six months ended 30 June 2007 to 1 mt for the six months ended 30 June 2008.

#### *Gross Profit*

As a result of the continuous expansion of production capacity, increase in selling price, economies of scale and the enhancement of cost control, the Group’s gross profit margin of coal mine business improved from approximately 42.7% for the six months ended 30 June 2007 to approximately 63.1% for the six months ended 30 June 2008. The gross profit has increased by 213.5% to approximately HK\$282.9 million for the six months ended 30 June 2008 as compared with corresponding period of last year.

### *Net Profit*

The unaudited net profit attributable to shareholders for the period was approximately HK\$208.5 million while it was HK\$44.4 million for the same period in 2007. The increase in profit attributable to shareholders was mainly due to higher turnover and improved gross profit margin as explained above.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at 30 June 2008, the net asset value of the Group is approximately HK\$681.9 million (31 December 2007: approximately HK\$398.2 million) and the total cash and bank balance is approximately HK\$93.2 million (31 December 2007: approximately HK\$115.2 million). As at 30 June 2008, the Group had net current assets of HK\$89.9 million and its current ratio increased from 1.1 times to 1.4 times compared with the same period of last year. The Group's total bank loans of approximately HK\$34.1 million (31 December 2007: approximately HK\$83.7 million) is repayable within one year.

As disclosed in note 17 of the Interim Financial Statements, in addition to a convertible bond issued in 2006, the Company has issued two additional convertible bonds in 2007 with the major purposes for settlement of the promissory notes and payment of purchase consideration on acquisition of a subsidiary. As at 30 June 2008, the liability components and the fair value of compound derivative components of all the outstanding convertible bonds stated in the balance sheet amounted to HK\$258.6 million and HK\$58.9 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 17 to the financial statements.

The Group's gearing ratio, as a ratio of total long term debts (excluding other payables) to total equity, was 46.6% as at 30 June 2008 (31 December 2007: 97.7%).

## **EXCHANGE RISK EXPOSURE**

The sales and purchases of the Group are predominantly in RMB which is the functional currency of the related group entities. The Board 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.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group has a total of approximately 4,100 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 Board to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group. As at 30 June 2008, the Company had 38,100,000 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 38,100,000 additional ordinary shares of the Company and additional share capital of approximately HK\$3.81 million and share premium of approximately HK\$37.1 million, excluding issue expenses.

## INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2008.

## PROSPECT

In the second half year of 2008, it is expected that the Chinese government will control the coal price so as to ensure the steady and rapid development of the economy. However, Since coal is still in short supply in both international and national market, the price reaches the record high. Furthermore, some industries in China which formerly rely on imported coal has changed to use local coal and the PRC government continues to regulate and close down sub-standard coal mines and imposes safety production requirements strictly. Thus the coal price will be expected to remain at a high level.

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 35 mt as of the end of June 2008. Management targets to expand the coal reserve size and annual capacity continuously to achieve better economies of scale and capture the continuous increase in coal demand from customers. The Group will continue to identify suitable local mines to enlarge its coal reserves and output capacity, taking advantage of industry consolidation in China.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2008, the interests and short positions of each director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Director	Nature of interest	Number of shares	Number of underlying shares	Percentage of the Company's issued share capital
Mr. Bao Hongkai ("Mr. Bao")	Interests in controlled corporation	100,000,000 (Note 1)	–	14.93%
	Interests in controlled corporation	–	230,779,220 (Note 1)	34.47%
	Personal interest	–	6,400,000 (Note 2)	0.96%
Mr. Wu Jiahong ("Mr. Wu")	Personal interest	–	6,400,000 (Note 2)	0.96%
Mr. Xu Lidi ("Mr. Xu")	Personal interest	–	6,400,000 (Note 2)	0.96%
Mr. Cheng Koon Cheung	Personal interest	40,000 (Note 3)	–	0.01%

Notes:

- (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 and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao, Mr. Wu and Mr. Xu are the executive directors of the Company during the period. 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 ("CB1") and HK\$230,000,000 ("CB2"). On 3 January 2008, HK\$39,000,000 of CB2 has been transferred by Dragon Rich to outsiders. As at 30 June 2008, the principal value of CB2 held by Dragon Rich is HK\$191,000,000. Upon full conversion of CB1 and CB2 thereof at an initial conversion price of HK\$0.35 and HK\$1.1 per share respectively, a total of 230,779,220 shares will be issued to Dragon Rich.
- (2) Each of Mr. Bao, Mr. Wu and Mr. Xu is interested as a grantee of share options to subscribe for 6,400,000 shares of the Company under the share option scheme as disclosed in note 19 to the financial statements.
- (3) Such Shares were beneficially held by Mr. Cheng Koon Cheung.

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

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

Save as disclosed above, none of the directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange as at 30 June 2008.

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

So far as was known to the directors or chief executive of the Company, as at 30 June 2008, 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 of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

### (a) Long positions in the shares

Name of Shareholders	Capacity	Number of Shares	Approximate percentage of shareholding
Dragon Rich <sup>(1)</sup>	Beneficial owner	100,000,000	14.93%
Century Enterprise Investments Inc. <sup>(2)</sup>	Beneficial owner	75,642,250	11.30%
He Peng <sup>(2)</sup>	Interests in controlled corporation	75,642,250	11.30%
Hopeview Consultants Limited <sup>(3)</sup>	Beneficial owner	75,000,000	11.20%
Liu Changsong <sup>(3)</sup>	Interests in controlled corporation	75,000,000	11.20%
Sun Zhi Ming <sup>(4)</sup>	Beneficial owner	59,114,300	8.83%
Cheng Huarong <sup>(4)</sup>	Beneficial owner	46,200,000	6.90%
Zhao Shufan <sup>(4)</sup>	Beneficial owner	46,200,000	6.90%

**(b) Long positions in underlying shares – Derivatives**

<u>Name of Shareholders</u>	<u>Capacity</u>	<u>Number of underlying shares</u>	<u>Approximate percentage of shareholding</u>
Dragon Rich <sup>(1)</sup>	Beneficial owner	230,779,220	34.47%
CQS Convertible and Quantitative Strategies Master Fund Limited <sup>(5)</sup>	Beneficial owner	38,900,000	5.81%
ABN AMRO Holding N.V. <sup>(6)</sup>	Beneficial owner	43,222,222	6.46%
RFS Holdings B.V. <sup>(6)</sup>	Interests in controlled corporation	43,222,222	6.46%
The Royal Bank of Scotland Group plc <sup>(6)</sup>	Interests in controlled corporation	43,222,222	6.46%

Notes:

- (1) Dragon Rich is beneficially owned as to 40% by Mr. Bao, Mr. Bao was deemed to be interested in the underlying shares held by Dragon Rich.
- (2) Century Enterprise Investments Inc. is beneficially and wholly owned by Mr. He Peng. He is independent and not related to the Board of 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 of management of the Company.
- (4) They are individual shareholders and not related to the Board of management Company.
- (5) According to the corporate substantial shareholder notice (Form 2) filed by CQS Convertible and Quantitative Strategies Master Fund Limited with Stock Exchange, the long position 38,900,000 shares are being derivative interests derived from convertible bonds.
- (6) According to the corporate substantial shareholder notice (Form 2) filed by ABN AMRO Holding N.V. ("ABN") with Stock Exchange, the long position 43,222,222 shares are being derivative interests derived from convertible bonds. ABN is beneficially owned by RFS Holdings B.V. ("RFS"). The Royal Bank of Scotland Group plc. holds 38.28% of RFS.

Save as disclosed above, no persons had an interest or a short position in the shares and the underlying shares of the Company as recorded in the register required to be kept under 336 of the SFO.



## **SHARE OPTION SCHEME**

Pursuant to an ordinary resolution passed on 20 October 2004, the Company adopted a share option scheme (the “scheme”) which will remain in force for a period of 10 years from adoption of such scheme and will expire on 20 October 2014. On 3 January 2008, the Board approved to grant options in respect of 26,850,000 ordinary shares to the Company’s directors and senior management under the scheme. Details of the share options granted are set out in note 19 to the unaudited interim financial report.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors (“INEDs”) of the Company. The members of the audit committee have reviewed the unaudited financial statements of the Group for the six months ended 30 June 2008 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

## **COMPLIANCE WITH THE MODEL CODE**

The Group has adopted the Model Code as set out in Appendix 10 to the Listing Rules to govern securities transactions by the Directors. Having made specific enquiry to all the directors of the Company, they have complied with the required standards set out in the Model Code for the period ended 30 June 2008.

## CORPORATE GOVERNANCE

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, save as set out below, in the Code during the six months ended 30 June 2008. Details of deviation is set out as follows:

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 INEDs 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.

**Bao Hongkai**  
*Chairman*

Hong Kong, 18 September 2008

## INDEPENDENT REVIEW REPORT



Member of Grant Thornton International Ltd

TO THE BOARD OF DIRECTORS OF DYNAMIC ENERGY HOLDINGS LIMITED 合動能源控股有限公司  
(Incorporated in Bermuda with limited liability)

### Introduction

We have reviewed the interim financial statements set out on pages 12 to 33 which comprise the condensed consolidated balance sheet of Dynamic Energy Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) as of 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim financial statements.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements for the six months ended 30 June 2008 are not prepared, in all material respects, in accordance with HKAS 34.

### **Grant Thornton**

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

18 September 2008

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Unaudited	
		Six months ended 30 June	
	Notes	2008 HK\$'000	2007 HK\$'000 (Restated)
<b>Continuing operations:</b>			
Revenue	5	448,397	211,483
Cost of sales		(165,502)	(121,240)
<b>Gross profit</b>		<b>282,895</b>	<b>90,243</b>
Other income	5	13,530	6,348
Selling expenses		(4,970)	(1,101)
Administrative expenses		(63,156)	(16,509)
Other operating expenses		(941)	(2,096)
Gain on disposal of subsidiaries	2, 20	–	18,075
<b>Operating profit</b>		<b>227,358</b>	<b>94,960</b>
Change in fair value of compound derivative financial instruments		99,004	–
Finance costs	6	(34,236)	(15,855)
<b>Profit before income tax</b>	7	<b>292,126</b>	<b>79,105</b>
Income tax expense	8	(65,344)	(29,856)
<b>Profit after tax from continuing operations</b>		<b>226,782</b>	<b>49,249</b>
<b>Discontinued operations:</b>			
Profit for the period from discontinued operations	9	–	813
<b>Profit for the period</b>		<b>226,782</b>	<b>50,062</b>
<b>Attributable to:</b>			
Equity holders of the Company		208,482	44,415
Minority interests		18,300	5,647
<b>Profit for the period</b>		<b>226,782</b>	<b>50,062</b>
<b>Earnings per share</b>			
	11		
– Basic (HK cents)			
From continuing operations		31.226	7.438
From continuing and discontinued operations		31.226	7.498
– Diluted (HK cents)			
From continuing operations		13.421	6.667
From continuing and discontinued operations		13.421	6.720

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	178,208	144,040
Prepaid lease payments		1,159	1,310
Goodwill		251,575	251,575
Mining rights		650,607	603,869
Other intangible assets		194	215
		<b>1,081,743</b>	<b>1,001,009</b>
<b>Current assets</b>			
Inventories	13	25,124	19,273
Accounts receivable	14	98,101	84,145
Prepayments, deposits and other receivables		84,877	83,834
Cash and cash equivalents		93,154	115,180
		<b>301,256</b>	<b>302,432</b>
<b>Current liabilities</b>			
Accounts payable	15	11,066	14,596
Other payables and accruals		114,275	112,900
Provision for tax		51,880	52,793
Bank loans	16	34,143	83,737
		<b>211,364</b>	<b>264,026</b>
<b>Net current assets</b>		<b>89,892</b>	<b>38,406</b>
<b>Total assets less current liabilities</b>		<b>1,171,635</b>	<b>1,039,415</b>
<b>Non-current liabilities</b>			
Compound derivative financial instruments	17	58,921	158,806
Other payables		172,252	251,950
Convertible bonds	17	258,563	230,445
		<b>489,736</b>	<b>641,201</b>
<b>Net assets</b>		<b>681,899</b>	<b>398,214</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	18	66,959	66,686
Reserves		559,456	296,802
		<b>626,415</b>	<b>363,488</b>
<b>Minority interests</b>		<b>55,484</b>	<b>34,726</b>
<b>Total equity</b>		<b>681,899</b>	<b>398,214</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2008

	Attributable to equity holders of the Company											Minority interests	Total
	Equity component of			Share option reserve	Capital redemption reserve	Other reserve	Contributed surplus	Exchange fluctuation reserve	Retained profit/ (Accumulated losses)	Statutory reserve fund	Total		
	Share capital	Share premium	convertible bonds										
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 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 period (restated)	-	-	-	-	-	-	-	-	44,415	-	44,415	5,647	50,062
Total recognised income and expense for the period	-	-	-	-	-	-	-	-	44,415	-	44,415	5,647	50,062
Fixed assets acquired at no cost	-	-	-	-	-	153	-	-	-	-	153	-	153
Transfer	-	-	-	-	-	-	-	-	(8,349)	8,349	-	-	-
Placement of shares	20,000	18,000	-	-	-	-	-	-	-	-	38,000	-	38,000
Exercise of share options	40	31	-	-	-	-	-	-	-	-	71	-	71
Disposal of subsidiaries	-	-	-	-	-	-	-	(12,435)	-	(4,842)	(17,277)	(93,387)	(110,664)
At 30 June 2007 (restated)	128,213	174,802	4,582	5,216	50	3,364	3,284	(642)	(88,984)	18,023	247,908	22,340	270,248
At 1 January 2008	66,606	27,629	4,582	1,576	50	25,779	67,421	16,242	135,500	18,023	363,488	34,726	398,214
Profit for the period	-	-	-	-	-	-	-	-	208,482	-	208,482	18,300	226,782
Exchange difference - net income recognised directly in equity	-	-	-	-	-	-	-	33,465	-	-	33,465	2,458	35,923
Total recognised income and expense for the period	-	-	-	-	-	-	-	33,465	208,482	-	241,947	20,758	262,705
Transfer	-	-	-	-	-	15,396	-	-	(15,396)	-	-	-	-
Shares issued in conversion of convertible bonds	273	1,651	-	-	-	-	-	-	-	-	1,924	-	1,924
Employee share based compensation	-	-	-	19,056	-	-	-	-	-	-	19,056	-	19,056
At 30 June 2008	66,959	29,280	4,582	20,632	50	41,175	67,421	49,707	328,586	18,023	626,415	55,484	681,899

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Unaudited	
	Six months ended 30 June	2007
	2008	2007
	HK\$'000	HK\$'000
		(Restated)
Net cash inflow/(outflow) from operating activities	171,522	(32,552)
Net cash outflow from investing activities	(142,035)	(12,232)
Net cash (outflow)/inflow from financing activities	(53,963)	22,971
Net decrease in cash and cash equivalents	(24,476)	(21,813)
Cash and cash equivalents at beginning of the period	115,180	62,405
Effect of foreign exchange rate changes	2,450	–
Cash and cash equivalents at end of the period	93,154	40,592



## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2008*

### **1. GENERAL INFORMATION**

Dynamic Energy Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. 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 was 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 during the six months ended 30 June 2007 (see notes 9 and 20).

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2008 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The Interim Financial Statements do not include all of the information required for full annual financial statements and thereby they should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007 (the "2007 Annual Financial Statements").

The Interim Financial Statements are unaudited and have been reviewed by the Company's audit committee and the Company's auditors, Grant Thornton, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information by the Independent Auditor of the Entity" issued by the HKICPA. Grant Thornton's unmodified independent review report to the Board of Director is included on pages 10 to 11.

### **2. RE-STATEMENT OF COMPARATIVE FINANCIAL INFORMATION**

The Group has made the following adjustments to the comparative financial information:

On 8 February 2007, the Company entered into an agreement with Whole Gain International Limited ("Whole Gain"), pursuant to which the Company agreed to sell and Whole Gain agreed to purchase the entire issued share capital of Royal Group Limited.

It was noted that an error was found in the interim report for the six months ended 30 June 2007 (the "2007 Interim Report") on the calculation of the gain/loss on disposal of subsidiaries. In the 2007 Interim Report, the Group had mistakenly credited the releases of exchange fluctuation reserve and statutory reserve fund of HK\$12,345,000 and HK\$4,842,000 respectively directly to accumulated losses upon disposal, but not through the condensed consolidated income statement. It was also noted that some professional expenses of HK\$1,156,000 borne by the Company were included in the gain/loss on disposal of subsidiaries which should be classified under other operating expenses. Adjustments have been made to rectify these errors and the comparative figures were amended accordingly.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 2. RE-STATEMENT OF COMPARATIVE FINANCIAL INFORMATION (CONTINUED)

The effect of the above adjustments on the calculation on gain/loss on disposal of subsidiaries and the results for the prior period is as follows:

	<b>Unaudited Six months ended 30 June 2007</b>
	<i>HK\$'000</i>
Loss on disposal of subsidiaries – as previously reported	(358)
– Release of exchange fluctuation reserve upon disposal	12,435
– Release of statutory reserve fund upon disposal	4,842
– Reclassification of other operating expenses borne by the Company	1,156
	<hr/>
Gain on disposal of subsidiaries – as restated	18,075

	<b>Unaudited Six months ended 30 June 2007</b>
	<i>HK\$'000</i>
Profit for the period – as previously reported	32,785
– Release of exchange fluctuation reserve upon disposal	12,435
– Release of statutory reserve fund upon disposal	4,842
	<hr/>
Profit for the period - as restated	50,062

	<b>Unaudited Six months ended 30 June 2007</b>
Increase in earnings per share	
– Basic (HK cents)	
From continuing operations	2.917
From continuing and discontinued operations	2.917
	<hr/>
– Diluted (HK cents)	
From continuing operations	2.569
From continuing and discontinued operations	2.569

The above errors had been rectified in the 2007 Annual Financial Statements and therefore no restatement is required for the condensed consolidated balance sheet as at 31 December 2007.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 3. ACCOUNTING POLICIES

The Interim Financial Statements have been prepared under the historical cost convention except for certain financial liabilities which are stated at fair values.

The accounting policies used in preparing the Interim Financial Statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2007.

#### (a) Impact of new and revised HKFRSs which are effective in the current interim period

All the new and revised standards and interpretations of Hong Kong Financial Reporting Standards ("HKFRSs") which are effective for annual period beginning on 1 January 2008 and relevant to the Group have been adopted by the Group. These did not result in significant changes in the Group's accounting policies and had no significant impact on the current or the prior accounting periods.

#### (b) Impact of new and revised HKFRSs which are issued but not yet effective

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective in the current period:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidation and Separate Financial Statements <sup>3</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combination <sup>3</sup>
HKFRS 8	Operating Segments <sup>1</sup>
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
Amendments to HKAS 32	Financial Instruments: Presentation – Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
Amendments to HKAS 39	Financial Instruments: Recognition and Measurement – Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
Amendments to HKFRS 7	Financial Instruments: Disclosures – Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>2</sup>
HK(IFRIC) – Int 15	Agreements for Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment on Foreign Operation <sup>4</sup>
Amendments to HK(IFRIC) – Int 2	Members' Services in Co-operative Entities and Similar Instruments <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 3. ACCOUNTING POLICIES (CONTINUED)

#### (b) Impact of new and revised HKFRSs which are issued but not yet effective (CONTINUED)

The Group is in the process of assessing the impact of these new and revised HKFRSs upon initial application. The Group anticipates that these new and revised HKFRSs are unlikely to have any material impact on the Group's financial statements except for HKAS 1 (Revised) which will affect the presentation of financial statements as disclosed in the 2007 Annual Financial Statements.

### 4. SEGMENT INFORMATION

The Group's operating business 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 return that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) Production and sale of coal segment involves the sale of coal;
- (ii) Generation and sale of electricity segment involves the sale of electricity (This segment had been disposed of by the Group during the six months ended 30 June 2007 (see notes 9 and 20)); and
- (iii) "Others" segment comprises, principally, the Group's holding of equity investments.

There was no inter-segment sale and transfer during the period (Six months ended 30 June 2007: Nil).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 4. SEGMENT INFORMATION (CONTINUED)

#### (a) Business segments

	Continuing operations						Discontinued operations			
	Production and sale of coal		Others		Total		Generation and sale of electricity		Consolidated	
	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)				(Restated)
Segment revenue:										
Sales to customers	448,397	211,483	-	-	448,397	211,483	-	58,925	448,397	270,408
Segment results	251,456	81,638	(24,098)	(4,753)	227,358	76,885	-	3,818	227,358	80,703
Gain on disposal of subsidiaries	-	-	-	18,075	-	18,075	-	-	-	18,075
Operating profit/(loss)	251,456	81,638	(24,098)	13,322	227,358	94,960	-	3,818	227,358	98,778
Change in fair value of compound derivative financial instruments	-	-	99,004	-	99,004	-	-	-	99,004	-
Finance costs	(3,130)	(2,871)	(31,106)	(12,984)	(34,236)	(15,855)	-	(2,651)	(34,236)	(18,506)
Profit before income tax	248,326	78,767	43,800	338	292,126	79,105	-	1,167	292,126	80,272
Income tax expense	(65,344)	(29,856)	-	-	(65,344)	(29,856)	-	(354)	(65,344)	(30,210)
Profit for the period	182,982	48,911	43,800	338	226,782	49,249	-	813	226,782	50,062

#### (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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 5. REVENUE AND OTHER INCOME

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

Turnover and other income recognised during the period are as follows:–

	Continuing operations Unaudited		Discontinued operations Unaudited		Consolidated Unaudited	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenue/Turnover</b>						
Sale of coal	448,397	211,483	-	-	448,397	211,483
Sale of electricity	-	-	-	58,925	-	58,925
	448,397	211,483	-	58,925	448,397	270,408
<b>Other income</b>						
Interest income	409	3,279	-	27	409	3,306
Bad debts recovery	8,733	-	-	-	8,733	-
Others	4,388	3,069	-	-	4,388	3,069
	13,530	6,348	-	27	13,530	6,375

### 6. FINANCE COSTS

	Continuing operations Unaudited		Discontinued operations Unaudited		Consolidated Unaudited	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)				(Restated)
Interest charge on bank loans						
– wholly repayable within five years	3,130	2,871	-	2,651	3,130	5,522
Effective interest expense on						
convertible bonds repayable within five years	31,106	778	-	-	31,106	778
Effective interest expense on						
promissory notes repayable within five years	-	12,206	-	-	-	12,206
Interest expense on financial liabilities stated at						
amortised cost	34,236	15,855	-	2,651	34,236	18,506

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 7. PROFIT BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)				(Restated)
Cost of inventories sold	157,717	117,834	-	42,303	157,717	160,137
Depreciation	6,710	2,345	-	9,029	6,710	11,374
Operating lease charges on land and buildings	306	380	-	-	306	380
Amortisation of prepaid lease payments	231	262	-	201	231	463
Amortisation of mining rights	11,588	3,065	-	-	11,588	3,065
Amortisation of intangible assets	67	72	-	-	67	72
Employee benefit expenses (including directors' remuneration and retirement benefit scheme contributions)	65,694	25,362	-	5,079	65,694	30,441
Loss on remeasurement to fair value less costs to sell	-	-	-	9,230	-	9,230
Loss on disposals of property, plant and equipment	505	-	-	-	505	-

### 8. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax						
- PRC income tax	65,344	29,856	-	354	65,344	30,210

Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2007: 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 25% (Six months ended 30 June 2007: 33%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 9. DISCONTINUED OPERATIONS

The Company had a wholly owned subsidiary, namely Royce Group Limited (“RGL”), which was an investment holding company holding indirectly 53.1% equity interest in Longyan Hengfa (collectively referred to as the “RGL Group”). The RGL Group was 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 emphasis 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 Interim 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 condensed consolidated income statement and the condensed consolidated cash flow statement was as follows:

	<b>Period from 1 January 2007 to 31 May 2007</b>
	<i>HK\$’000</i>
Revenue	58,925
Other income	27
Expenses	(48,555)
Income tax expenses	(354)
	10,043
Loss on remeasurement to fair value less costs to sell	(9,230)
Profit for the period from discontinued operations	813
Operating cash inflow	3,154
Investing cash inflow	739
Financing cash outflow	(24,875)
Total cash outflow	(20,982)

### 10. DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2008 (Six months ended 30 June 2007: Nil).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 11. EARNINGS PER SHARE

#### From continuing operations

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		(Restated)
<b>Profit</b>		
Profit for the period attributable to the equity holders of the Company for the purpose of basic earnings per share	<b>208,482</b>	44,415
Profit for the period from discontinued operations	–	813
Less: Profit for the period attributable to minority interests from discontinued operations	–	454
Profit for the period attributable to the equity holders of the Company from discontinued operations	–	359
Profit for the period attributable to the equity holders of the Company for the purpose of basic earnings per share from continuing operations	<b>208,482</b>	44,056
<b>Effect of dilutive potential ordinary shares:</b>		
Interest on convertible bonds	<b>31,106</b>	778
Change in fair value of compound derivative financial instruments	<b>(99,004)</b>	–
Profit for the purpose of diluted earnings per share attributable to the equity holders of the Company from continuing operations	<b>140,584</b>	44,834

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 11. EARNINGS PER SHARE (CONTINUED)

#### From continuing operations (CONTINUED)

	Unaudited	
	Six months ended 30 June	
	2008	2007
	'000	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	667,646	592,341
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	8,247	23,123
Convertible bonds	371,562	57,143
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,047,455	672,607

Earnings per share attributable to the equity holders of the Company from continuing operations for the six months ended 30 June 2008 is based on the profit attributable to the equity holders of the Company of approximately HK\$208.5 million (Six months ended 30 June 2007: HK\$44.1 million) and the weighted average of 667,646,000 ordinary shares (Six months ended 30 June 2007: 592,341,000) outstanding during the six months ended 30 June 2008.

Diluted earnings per share attributable to the equity holders of the Company from continuing operations for the six months ended 30 June 2008 is based on the profit attributable to the equity holders of the Company of approximately HK\$140.6 million (Six months ended 30 June 2007: HK\$44.8 million) and the weighted average of 1,047,455,000 ordinary shares (Six months ended 30 June 2007: 672,607,000) outstanding during the six months ended 30 June 2008.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 11. EARNINGS PER SHARE (CONTINUED)

#### From continuing and discontinued operations

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

	<b>Unaudited</b> <b>Six months ended 30 June</b> <b>2007</b> <i>HK\$'000</i>
<hr/>	
<b>Profit</b>	
Profit for the period attributable to the equity holders of the Company for the purpose of basic earnings per share	44,415
<b>Effect of dilutive potential ordinary shares:</b>	
Interest on convertible bonds	778
<hr/>	
Profit for the purpose of diluted earnings per share attributable to the equity holders of the Company from continuing and discontinued operations	45,193
<hr/>	

Earnings per share attributable to the equity holders of the Company from continuing and discontinued operations for the six months ended 30 June 2007 is based on the profit attributable to the equity holders of the Company of approximately HK\$44.4 million and the denominators detailed above.

Diluted earnings per share attributable to the equity holders of the Company from continuing and discontinued operations for the six months ended 30 June 2007 is based on the profit attributable to the equity holders of the Company of approximately HK\$45.2 million and the denominators detailed above.

#### From discontinued operations

Earnings per share attributable to the equity holders of the Company from discontinued operations is HK0.06 cents per share, based on the profit for the six months ended 30 June 2007 attributable to the equity holders of the Company from discontinued operations of approximately HK\$0.4 million and the denominators detailed above.

Diluted earnings per share attributable to the equity holders of the Company from discontinued operations is HK0.05 cents per share, based on the profit for the six months ended 30 June 2007 attributable to the equity holders of the Company from discontinued operations of approximately HK\$0.4 million and the denominators detailed above.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 12. PROPERTY, PLANT AND EQUIPMENT (UNAUDITED)

During the six months ended 30 June 2008,

- (a) the Group incurred capital expenditure of approximately HK\$14.0 million (Six months ended 30 June 2007: approximately HK\$12.7 million) in buildings, approximately HK\$3.4 million (Six months ended 30 June 2007: approximately HK\$4.9 million) in plant and machinery, approximately HK\$8.3 million (Six months ended 30 June 2007: Nil) in mining related machinery and equipment, approximately HK\$2.0 million (Six months ended 30 June 2007: approximately HK\$0.9 million) in furniture, fixture, equipment and leasehold improvements, approximately HK\$3.8 million (Six months ended 30 June 2007: approximately HK\$1.4 million) in motor vehicles and approximately HK\$1.8 million (Six months ended 30 June 2007: approximately HK\$5.3 million) in construction in progress.
- (b) the Group disposed of certain items of property, plant and equipment with carrying value amounted to approximately HK\$1.8 million (Six months ended 30 June 2007: Nil) and recognised a loss of approximately HK\$0.5 million (Six months ended 30 June 2007: Nil) in the condensed consolidated income statement of the current interim period.

### 13. INVENTORIES

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Coal	3,136	6,075
Spare parts and consumables	21,988	13,198
	<b>25,124</b>	<b>19,273</b>

### 14. ACCOUNTS RECEIVABLE

Ageing analysis

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Current – 90 days	98,101	84,145

All the accounts receivable were neither past due nor impaired.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 15. ACCOUNTS PAYABLE

#### Ageing analysis

	Unaudited 30 June 2008	Audited 31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 90 days	3,953	12,908
91 – 180 days	5,231	1,112
Over 180 days	1,882	576
	<b>11,066</b>	14,596

### 16. BANK LOANS

	Unaudited 30 June 2008	Audited 31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans repayable within one year and classified as current liabilities	<b>34,143</b>	83,737

### 17. CONVERTIBLE BONDS

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 Clear Interest Limited. 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. As at 30 June 2008, the holder of CB1 was Dragon Rich Resources Limited (“Dragon Rich”), a substantial shareholder and connected party of the Company.

On 16 November 2007, the Company issued a zero coupon convertible bonds (“CB2”) in the principal amount of HK\$230,000,000 as for the settlement of the promissory notes issued by the Company. CB2 were issued to Dragon Rich with a conversion price of HK\$1.1 per share and 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. On 3 January 2008, Dragon Rich transferred part of the CB2 with principal amount of HK\$39,000,000 to a third party. CB2 with principal amount of HK\$3,000,000 was converted by the third party during the six months ended 30 June 2008 (note 18). As at 30 June 2008, the holders of CB2 were Dragon Rich and the third party with principal amount of HK\$191,000,000 and HK\$36,000,000 respectively.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 17. CONVERTIBLE BONDS (CONTINUED)

On 10 December 2007, the Company issued a 2% coupon convertible bonds ("CB3") in the 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 mature on 10 December 2010. The conversion price is also 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. The CB3 was secured by the Company's entire interest in Clear Interest Limited and Zhong Yue Energy Development (Shenzhen) Company Limited.

The effective interest expense on CB1 and CB2 held by Dragon Rich for the six months ended 30 June 2008 was HK\$13,460,000 (Six months ended 30 June 2007: HK\$778,000).

	Unaudited				Audited			
	30 June 2008				31 December 2007			
	CB1	CB2	CB3	Total	CB1	CB2	CB3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Proceeds of issue	20,000	230,000	194,500	<b>444,500</b>	20,000	230,000	194,500	444,500
Equity component	(4,582)	-	-	<b>(4,582)</b>	(4,582)	-	-	(4,582)
Compound derivative component on initial recognition	-	(163,162)	(53,794)	<b>(216,956)</b>	-	(163,162)	(53,794)	(216,956)
Liability component on initial recognition	15,418	66,838	140,706	<b>222,962</b>	15,418	66,838	140,706	222,962
Accumulated payment of interest	(200)	-	(1,945)	<b>(2,145)</b>	(200)	-	-	(200)
Accumulated interest expense	2,738	20,477	15,574	<b>38,789</b>	1,889	4,189	1,605	7,683
Conversion of convertible bonds	-	(1,043)	-	<b>(1,043)</b>	-	-	-	-
Liability component at the end of the period/year	17,956	86,272	154,335	<b>258,563</b>	17,107	71,027	142,311	230,445

Compound derivative financial instruments – classified as non-current liabilities

	Unaudited	Audited
	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
At beginning of the period/year	<b>158,806</b>	-
Initial recognition upon issuance of bonds	-	216,956
Fair value gain	<b>(99,004)</b>	(58,150)
Conversion of convertible bonds	<b>(881)</b>	-
At end of the period/year	<b>58,921</b>	158,806

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 18. SHARE CAPITAL

	<b>Unaudited</b>	Audited
	<b>30 June 2008</b>	31 December 2007
	<b>HK\$'000</b>	HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.1 each	<b>300,000</b>	300,000
Issued and fully paid:		
669,589,885 (2007: 666,862,614)		
ordinary shares of HK\$0.1 each (note)	<b>66,959</b>	66,686

*Note:* During the six months ended 30 June 2008, 2,727,271 ordinary shares in aggregate were issued, at the conversion price of HK\$1.1 per share, to the bond holders upon the partial conversion of the convertible bonds (note 17). As a result, there was an increase in the share capital and share premium of HK\$273,000 and HK\$1,651,000 respectively. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

### 19. 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 of the Company adopted on 15 May 1997. The Scheme became effective on 20 October 2004 and, unless otherwise cancelled or amended, 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 Company granted 26,850,000 share options under the Scheme during the six months ended 30 June 2008. No share options was granted during the six months ended 30 June 2007.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 19. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the six months period ended is HK\$0.71 per option. In total, approximately HK\$19.1 million of employee compensation expense has been included in the condensed consolidated income statement for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil), the corresponding amount of which has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

The fair value of equity-settled share options granted during the six months period ended 30 June 2008 was valued by BMI Appraisals Limited, an independent firm of professional valuers, estimated as at the date of grant using Binomial 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 six months period ended 30 June 2008.

Expected volatility (%)	82.92
Risk-free interest rate (%)	3.130
Price of the Company's shares at the date of grant of the share options (HK\$)*	1.41

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

\* The 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.

### 20. DISPOSAL OF SUBSIDIARIES

On 8 February 2007, the Company entered into an agreement with Whole Gain, pursuant to which the Company agreed to sell and Whole Gain agreed to purchase the entire 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 Assets Limited; (ii) 59% equity interest in Everbest Century Limited; (iii) 53.1% equity interest in Longyan Hengfa; and (iv) 100% equity interest in Royce Properties Limited. The directors of the Company believe that the disposals 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.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 20. DISPOSAL OF SUBSIDIARIES (CONTINUED)

	<b>Unaudited</b>
	<b>Six months ended</b>
	<b>30 June 2007</b>
	<i>HK\$'000</i>
	(Restated)
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
<b>Total consideration</b>	<b>39,100</b>
Satisfied by:	
Cash	39,100

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 21. CAPITAL COMMITMENTS

At 30 June 2008, the Group had no capital expenditure commitments in relation to the purchase of property, plant and equipment contracted but not provided for (31 December 2007: (contracted but not provided for) HK\$3.5 million).

On 17 May 2007, the Group entered into an agreement to acquire 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, a 90% indirectly-owned subsidiary of the Company. As at the date of acquisition, Xingyun Coal is principally engaged in the production and sale of coal. According to a supplement agreement dated 6 July 2007, the acquisition was completed on 1 July 2007.

### 22. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Interim Financial Statements, the Group had the following material transactions with related parties during the period:

#### Compensation of key management personnel

	Unaudited	
	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Total remuneration of directors and other members of key management during the period	1,738	906

### 23. COMPARATIVE FIGURES

Certain comparatives figures have been reclassified as to confirm with current period's presentation and as a result of the re-statement of comparative financial information set out in note 2.

## **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*

### **AUDIT COMMITTEE**

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

### **NOMINATION COMMITTEE**

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

### **REMUNERATION COMMITTEE**

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

### **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**

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

### **PRINCIPAL BANKER**

Bank of China (Hong Kong) Limited  
Bank of China (BOC) Tower  
No.1 Garden Road  
Central  
Hong Kong