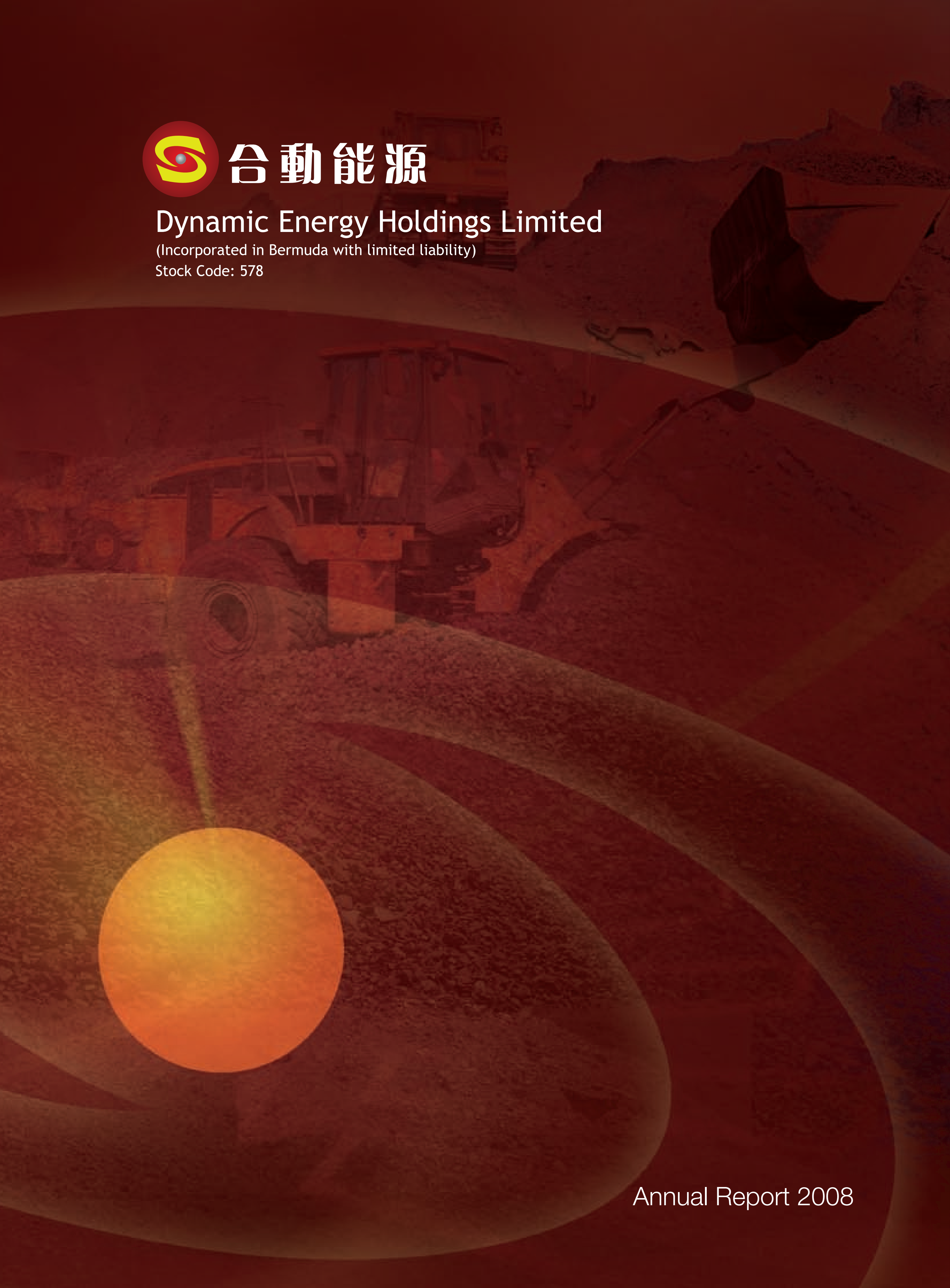
合動能源

Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578



Annual Report 2008

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*

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

Tang, Wong & Cheung
20/F, Two Grand Tower
625 Nathan Road
Mongkok, Kowloon
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

Summary Financial Information

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

(A) RESULTS

	Year ended 31 December 2008 *HK$'000*	Year ended 31 December 2007 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2004 *HK$'000*
Revenue					
– Continuing operations*	**789,960**	564,757	102,599	–	–
– Discontinued operations**	**–**	58,925	159,936	186,535	118,711
Profit/(Loss) before income tax from continuing operations	**420,868**	221,409	25,690	(7,725)	17,354
Income tax (expenses)/credit	**(108,204)**	(71,945)	(16,240)	–	3,064
Profit/(Loss) after tax from continuing operations	**312,664**	149,464	9,450	(7,725)	20,418
Profit/(Loss) from discontinued operations	**–**	813	(88,584)	(51,502)	–
Minority interests	**(29,132)**	(16,082)	(3,549)	(3,769)	(5,720)
Profit/(Loss) attributable to equity holders of the Company	**283,532**	134,195	(82,683)	(62,996)	14,698

* *Continuing operations for the years ended 31 December 2006, 2007 and 2008 represent the production and sales of coal.*

** *Discontinued operations for the year ended 31 December 2004, 2005, 2006 and 2007 represent the generation and sale of electricity.*

Summary Financial Information

(B) ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**1,088,006**	1,001,009	332,583	386,459	450,062
Current assets	**412,147**	302,432	575,442	91,309	119,524
Total assets	**1,500,153**	1,303,441	908,025	477,768	569,586
Current liabilities	**582,172**	264,026	326,951	80,799	108,146
Non-current liabilities	**152,889**	641,201	288,448	86,344	96,067
Total liabilities	**735,061**	905,227	615,399	167,143	204,213
Total equity	**765,092**	398,214	292,626	310,625	365,373
– attributable to equity holder of the Company	**698,412**	363,488	182,546	205,491	266,086
– Minority interests	**66,680**	34,726	110,080	105,134	99,287

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 2008.

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"). The Group owns five coal mines with total area of approximately 7.7 square kilometers. As of 31 December 2008, the total coal reserves was approximately 34 million tons ("mt"). With the completion of the previous coal mines acquisition in 2007, the annual production capacity of the Group has reached to approximately 1.7 million tons in the 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.

Year 2008 was undoubtedly a tough year for the global economy, including that of the PRC. However, the Group out-performed the market and posted strong results due to higher coal price. The average selling price of coal was driven to a new level in the first half year of 2008 because of the rapid growth of the Chinese economy and strong demand for coal.

However, since the second half of 2008, the global financial crisis has slowed down economic growth, as well as demand and prices. Besides, production at the Group's coal mines were suspended in the last quarter of 2008 due to safety inspection being carried out for all coal mines in Henan Province by the PRC government bureau. Revenue for the last quarter was therefore greatly reduced. But the Group was able to overcome these unfavourable factors and achieve outstanding results – in terms of revenue and profit – comparing with last year.

Business and Financial Review

Revenue

The Group's turnover from continuing operation for the year ended 31 December 2008 amounted to approximately HK$790.0 million, representing a 39.87% increase from approximately HK$564.8 million for the year ended 31 December 2007. The increase in turnover was attributed to the stronger demand for coal from the Group's customers and the continuing growth in the average selling price of coal in the first half year of 2008. The Group's average selling price (net of value added tax) of coal was HK$425.6 per ton for the year 2008, representing an increase of 33.38% as compared with HK$319.1 per ton for the last year. However, with the impact of global financial crisis becomes stronger in the second half year of 2008, the demand and price of coal remained steady. Moreover, due to the suspension of production of the coal mines in Henan Province, the Group's revenue was greatly reduced in the last quarter of year 2008. Otherwise, total revenue of the Group would have recorded a higher growth for the whole year.

Gross Profit

Thanks to the continued expansion of production capacity, an increase in the average selling price of coal, economies of scale and the enhancement of cost control, gross profit margin of the Group's coal mine business improved from approximately 49.95% in the last year to approximately 61.00% for the year 2008. Gross profit has increased by 70.80% to approximately HK$481.8 million for the year 2008 as compared with the year 2007.

Chairman's Statement

Net Profit

The audited net profit attributable to shareholders for the year ended 31 December 2008 was approximately HK$283.5 million while it was HK$134.2 million for the year ended 31 December 2007. The increase in profit attributable to shareholders was mainly due to achievement of higher turnover and higher gross margin as explained above. Furthermore, the profit tax rate for the operating subsidiaries in PRC was reduced from 33% for last year to 25% for the current year, which has also contributed the favourable result of the Group.

PROSPECT

With the global economic downturn since the second half of 2008, the demand for natural resources including thermal coal has been greatly reduced compared with the first half year of 2008. The economic outlook is an uncertain factor poised to affect our growth rate for the coming year.

Our performance in 2009 also depends on the resumption of production of all of our coal mines. As at the date of announcement for annual results of year 2008, four of the five coal mines of the Group are still in suspension. The management foresees that there may have impact on the Group's revenue and profit for the first half year of 2009.

We see opportunities in crisis. We believe the temporary suspension of the coal mines would facilitate healthy development of the coal mining industry in the PRC in the long run. Although the Group's short term revenue was affected, stringent safety standards will facilitate the long-term growth of industry leaders like us. Henceforth, the Group foresees more merger and acquisition opportunities during this consolidation process. We will continue to identify and acquire suitable coal mines to increase our annual production capacity and coal reserves.

The management of the Group expects that there will not be dramatic changes in the economic environment and the demand for coal will remain steady. Nevertheless, thanks to our high coal quality and good relationship with major customers, we are confident that we can sell our coal at a competitive spot market price. Meanwhile, the management strives to achieve a higher margin by stringent cost control.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2008, the net asset value of the Group is approximately HK$765.1 million (2007: approximately HK$398.2 million) and the total cash and bank balance is approximately HK$165.3 (2007: approximately HK$115.2 million). As at 31 December 2008, the Group had net current liabilities of HK$170.0 million and its current ratio decreased from 1.1 times to 0.7 times compared with last year.

As at 31 December 2008, bank loans of approximately HK$45.4 million (2007: approximately HK$30.3 million) were denominated in Renminbi ("RMB") and were secured by certain accounts receivable, bear interest at fixed rate of 7.3% per annum; bank loans of approximately HK$22.7 million (2007: approximately HK$53.4 million) were denominated in RMB and were unsecured, bear interest at fixed rate of 12.14% per annum (2007: 6.73% to 11.32% per annum) and repayable within one year.

As at 31 December 2008, the Company has three outstanding convertible bonds. 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$292.3 million and HK$23.2 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.

As at 31 December 2008, two of the Company's convertible bonds ("CB1" and "CB3" as referred below) were classified as current liabilities. Of which the 1% coupon convertible bonds with principal amount of HK$20,000,000 with a conversion price of HK$0.35 per share ("CB1") would be matured on 24 October 2009; therefore, the carrying amount of CB1 amounted to approximately HK$18,658,000 was classified as current liabilities. Subsequent to year end date, CB1 has been fully converted into the Company's shares.

The holders of another convertible bonds, the 2% coupon convertible bonds with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000) with a conversion price of HK$1.8 per share with maturity date on 10 December 2010 ("CB3"), have the right at such holders' options (the "Put Option"), to require the Company to redeem all or some only of the CB3 on 10 December 2009. Relative liability and compound derivative components amounted to approximately HK$167,796,000 and HK$4,788,000 respectively were classified as current liabilities. In the case that if CB3 has been fully converted into shares or the Put Option has not been exercised by the bond holders within one year, the above liability and compound derivative components would be converted or not repayable within one year.

The Group's gearing ratio, as a ratio of total long term debts (excluding other payables) to total equity, was 16.25% as at 31 December 2008 (2007: 97.75%).

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 is 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.

DIVIDEND

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

BONUS ISSUE

The Board proposes a bonus issue (the "Bonus Issue") to be made to the shareholders of the Company on the basis of four (4) bonus shares for every five (5) existing shares.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group has a total of approximately 2,300 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, the Company has granted 26,850,000 share options to executives and employees.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Bao Hongkai	37	Executive Director, Chairman	3	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	42	Executive Director	3	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	43	Executive Director	2	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	43	Executive Director	3	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	57	Independent Non-Executive Director	5	Joined the Group in 2004. He has been a practicing 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. Currently, he acts as independent non-executive director of three Singapore listed companies and non-executive director of a Singapore listed company. Mr. Chan also serves as independent non-executive director of three other Hong Kong listed companies, namely, China Precious Metal Resources Holdings Company Limited, Goldmond Holdings Limited and New Smart Energy Group Limited.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Ng Wing Hang, Patrick	56	Independent Non-Executive Director	5	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	52	Independent Non-Executive Director	3	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. Mr. Choi also serves as an independent non-executive director of three other listed companies in Hong Kong, namely, Oriental Watch Co. Ltd., Nam Tai Electronic & Electrical Products Limited and Hunan Nonferrous Metals Corp. Ltd.

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 2008.

MODEL CODE FOR 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 2008.

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
	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 2008 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 2008 is set out below:

		Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Bao Hongkai	4/4	–	–	–
Mr. Wu Jiahong	4/4	–	2/2	1/1
Mr. Xu Lidi	4/4	–	–	–
Mr. Cheng Koon Cheung	4/4	–	–	–
INEDs				
Mr. Ng Wing Hang, Patrick	2/4	1/2	1/2	1/1
Mr. Chan Kin Sang	3/4	2/2	2/2	1/1
Mr. Choi Man Chau, Michael	3/4	2/2	2/2	1/1

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.

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 2008, 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 2008, the Nomination Committee held one meeting. 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.

Corporate Governance Practices

During 2008, the Audit Committee held two meetings. The Audit Committee has, among other things, reviewed the financial statements of the Group for the year ended 31 December 2007 and for the year ended 31 December 2008, 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 2008, 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$0.2 million respectively. Grant Thornton is also the tax representative of the Company 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 2008 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 pages 22 to 23.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. During the year 2008, 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 2008.

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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 94.

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

The Board proposes a bonus issue (the "Bonus Issue") to be made to the shareholders of the Company on the basis of four (4) bonus shares for every five (5) existing shares.

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 32 and 33, respectively, to the financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

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 of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 December 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.

Directors' Report

CORPORATE GOVERNANCE

The directors are in the opinion that the Company had complied with the code provisions during the year ended 31 December 2008 save for the following exception.

Code Provision A.4.1 of the Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive directors of the Company do not have a specific term of appointment, but subject to rotation in accordance with Bye-law 111 of the Bye-laws of the Company. As the independent non-executive directors of the Company are subject to rotation in accordance with the Bye-laws of the Company, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

FIVE YEARS FINANCIAL SUMMARY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, 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$29.3 million at 31 December 2008 (2007: approximately HK$27.6 million), 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 accounted for approximately 98% of the total revenue for the year. Purchases of coal from the Group's five largest suppliers accounted for 8% of the total cost of inventories sold for the year and purchases from the largest supplier included therein amounted to 4%.

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

Directors' Report

DIRECTORS

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

Executive Directors:

Mr. Bao Hongkai
Mr. Wu Jiahong
Mr. Xu Lidi
Mr. Cheng Koon Cheung

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. Bao Hongkai, Mr. Wu Jiahong and Mr. Xu Lidi, 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 Company are set out on pages 8 to 10.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 39 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' Report

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

As at 31 December 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	113,500,000 *(Note 1)*	–	16.95%
	Interests in controlled corporation	–	263,506,493 *(Note 1)*	39.35%
	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 ("Mr. Cheng")	Personal interest	40,000 *(Note 3)*	–	0.01%

Directors' Report

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 of the Company with the initial principal face value of HK$20,000,000 ("CB1") and HK$230,000,000 ("CB2"). As at 31 December 2008, the principal value of CB2 held by Dragon Rich is HK$227,000,000. 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 263,506,493 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 33 to the financial statements.

(3) Such Shares were beneficially held by Mr. Cheng.

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

		Number of shares held, capacity and nature of interest			
Name of Director	**Name of subsidiary**	**Shares**	**Number of Shares held/ Amount of capital paid**	**Capacity and nature of interest**	**Percentage of the equity interest**
Mr. Bao	河南金豐煤業集團有限公司 (前稱為登封市金豐工貿有限責任公司) (Henan Jinfeng Coal Industrial Group Company Limited) ("Jinfeng") (formerly known as Jinfeng Industrial and Trading Company Limited)	N/A	RMB11,800,000	Through Controlled Corporation	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 31 December 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and note 33 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 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 Resources Limited ("Dragon Rich")(1)	Beneficial owner	113,500,000	16.95%
Hopeview Consultants Limited(2)	Beneficial owner	75,000,000	11.20%
Liu Changsong(2)	Interests in controlled corporation	75,000,000	11.20%
Sun Zhi Ming(3)	Beneficial owner	53,778,300	8.03%
Cheng Huarong(3)	Beneficial owner	46,200,000	6.90%
Zhao Shufan(3)	Beneficial owner	46,200,000	6.90%

(b) Long positions in underlying shares – Derivatives

Name of Shareholders	Capacity	Number of underlying shares	Approximate percentage of shareholding
Dragon Rich(1)	Beneficial owner	263,506,493	39.35%
CQS Convertible and Quantitative Strategies Master Fund Limited(4)	Beneficial owner	38,900,000	5.81%
ABN AMRO Holding N.V.(5)	Beneficial owner	43,222,222	6.46%
RFS Holdings B.V.(5)	Interests in controlled corporation	43,222,222	6.46%
The Royal Bank of Scotland Group plc(5)	Interests in controlled corporation	43,222,222	6.46%

Directors' Report

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) 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.

(3) They are individual shareholders and not related to the Board or management of the Company.

(4) 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.

(5) 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.

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 3.19 and 8 to the financial statements, respectively.

In the opinion of the Board, 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 2008.

CONNECTED TRANSACTIONS

Details of the connected transactions are included in note 39 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 annual general meeting.

For and on behalf of the Board

Bao Hongkai
Chairman

Hong Kong
6 April 2009

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
(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 24 to 94, which comprise the company and consolidated balance sheets as at 31 December 2008, 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.

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.

Independent Auditors' Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter – material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 3.1 to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As at 31 December 2008, the Group and the Company had net current liabilities of approximately HK$170,025,000 and HK$194,385,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

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

6 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Continuing operations:			
Revenue	5	**789,960**	564,757
Cost of sales		**(308,116)**	(282,644)
Gross profit		**481,844**	282,113
Other income	5	**14,107**	31,035
Selling expenses		**(6,412)**	(3,466)
Administrative expenses		**(109,833)**	(77,548)
Other operating expenses		**(18,964)**	(51,322)
Gain on disposal of subsidiaries	36	**–**	18,075
Operating profit		**360,742**	198,887
Change in fair value of compound derivative financial instruments	28	**134,693**	58,150
Finance costs	7	**(74,567)**	(35,628)
Profit before income tax	8	**420,868**	221,409
Income tax expense	9	**(108,204)**	(71,945)
Profit after tax from continuing operations		**312,664**	149,464
Discontinued operations:			
Profit for the period from discontinued operations	10	**–**	813
Profit for the year		**312,664**	150,277
Attributable to:			
Equity holders of the Company	11	**283,532**	134,195
Minority interests		**29,132**	16,082
Profit for the year		**312,664**	150,277
Earnings per share for profit attributable to the equity holders of the Company during the year	12		
– Basic (HK cents)			
From continuing and discontinued operations		**42.405**	21.679
From continuing operations		**42.405**	21.621
– Diluted (HK cents)			
From continuing and discontinued operations		**20.586**	11.265
From continuing operations		**20.586**	11.217

Consolidated Balance Sheet

As at 31 December 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	**205,737**	144,040
Prepaid lease payments	*17*	**1,255**	1,310
Goodwill	*19*	**239,955**	251,575
Mining rights	*20*	**640,941**	603,869
Other intangible assets	*21*	**118**	215
		1,088,006	1,001,009
Current assets			
Inventories	*22*	**25,104**	19,273
Accounts receivable	*23*	**60,859**	84,145
Prepayments, deposits and other receivables		**160,883**	83,834
Pledged bank deposits	*24(a)*	**85,170**	–
Cash and cash equivalents	*24(a)*	**80,131**	115,180
		412,147	302,432
Current liabilities			
Accounts and bills payables	*25*	**168,485**	14,596
Other payables and accruals		**38,605**	67,329
Accrued reclamation obligations	*26*	**69,901**	45,571
Provision for tax		**45,809**	52,793
Bank loans	*27*	**68,130**	83,737
Compound derivative financial instruments	*28*	**4,788**	–
Convertible bonds	*28*	**186,454**	–
		582,172	264,026
Net current (liabilities)/assets		**(170,025)**	38,406
Total assets less current liabilities		**917,981**	1,039,415
Non-current liabilities			
Other payables	*29*	**28,561**	251,950
Compound derivative financial instruments	*28*	**18,444**	158,806
Convertible bonds	*28*	**105,884**	230,445
		152,889	641,201
Net assets		**765,092**	398,214

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	32	**66,959**	66,686
Reserves	34(a)	**631,453**	296,802
		698,412	363,488
Minority interests		**66,680**	34,726
Total equity		**765,092**	398,214

Wu Jiahong
Director

Cheng Koon Cheung
Director

Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	**575,464**	511,043
Current assets			
Prepayments, deposits and other receivables		**246**	254
Cash and cash equivalents	24(b)	**686**	88,000
		932	88,254
Current liabilities			
Other payables and accruals		**4,075**	10,949
Compound derivative financial instruments	28	**4,788**	–
Convertible bonds	28	**186,454**	–
		195,317	10,949
Net current (liabilities)/assets		**(194,385)**	77,305
Total assets less net current liabilities		**381,079**	588,348
Non-current liabilities			
Compound derivative financial instruments	28	**18,444**	158,806
Convertible bonds	28	**105,884**	230,445
		124,328	389,251
Net assets		**256,751**	199,097
EQUITY			
Share capital	32	**66,959**	66,686
Reserves	34(b)	**189,792**	132,411
Total equity		**256,751**	199,097

Wu Jiahong
Director

Cheng Koon Cheung
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company											Minority interest	Total
	Share capital HK$'000	Share premium* (Note 34(a)) HK$'000	Equity component of convertible bonds* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* (Note 34(a)) HK$'000	Other reserve* (Note 34(a)) HK$'000	Contributed surplus* (Note 34(a)) HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits/ (Accumulated losses)* HK$'000	Statutory reserve fund* (Note 34(a)) HK$'000	Total 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 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 36(a))*	–	–	–	–	–	–	–	(12,435)	–	(4,842)	(17,277)	(93,387)	(110,664)
Placement of shares *(note 32(a))*	20,000	17,910	–	–	–	–	–	–	–	–	37,910	–	37,910
Exercise of share options *(note 32(b))*	2,650	10,220	–	(3,640)	–	–	–	–	–	–	9,230	–	9,230
Capital reorganisation													
– Reduction of share capital *(note 32(c))*	(64,137)	–	–	–	–	–	64,137	–	–	–	–	–	–
– Reduction of share premium *(note 32(c))*	–	(157,272)	–	–	–	–	–	–	157,272	–	–	–	–
At 31 December 2007 and 1 January 2008	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

	Attributable to equity holders of the Company												Minority interest	Total
	Share capital HK$'000	Share premium* (Note 34(a)) HK$'000	Equity component of convertible bonds* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* (Note 34(a)) HK$'000	Other reserve* (Note 34(a)) HK$'000	Contributed surplus* (Note 34(a)) HK$'000	Exchange fluctuation reserve* HK$'000	Capital reserve* (Note 34(a)) HK$'000	Retained Profits* HK$'000	Statutory reserve fund* (Note 34(a)) HK$'000	Total HK$'000	HK$'000	HK$'000
At 31 December 2007 and 1 January 2008	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
Profit for the year	–	–	–	–	–	–	–	–	–	283,532	–	283,532	29,132	312,664
Exchange difference – net income recognised directly in equity	–	–	–	–	–	–	–	30,412	–	–	–	30,412	2,822	33,234
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**30,412**	**–**	**283,532**	**–**	**313,944**	**31,954**	**345,898**
Transfer	–	–	–	–	–	14,737	–	–	–	(30,816)	16,079	–	–	–
Capitalisation of retained profits in a PRC subsidiary	–	–	–	–	–	–	–	–	27,442	(27,442)	–	–	–	–
Issue of shares on conversion of convertible bonds *(note 32(d))*	273	1,651	–	–	–	–	–	–	–	–	–	1,924	–	1,924
Employee share based compensation	–	–	–	19,056	–	–	–	–	–	–	–	19,056	–	19,056
At 31 December 2008	**66,959**	**29,280**	**4,582**	**20,632**	**50**	**40,516**	**67,421**	**46,654**	**27,442**	**360,774**	**34,102**	**698,412**	**66,680**	**765,092**

* The aggregate amount of these balances of approximately HK$631.5 million (2007: approximately HK$296.8 million) represents the reserves in the consolidated balance sheet.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit before income tax, including profit from discontinued operation		**420,868**	222,576
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	28	**(134,693)**	(58,150)
Interest expense	7	**74,567**	38,280
Amortisation of mining rights	8	**19,945**	11,005
Amortisation of prepaid lease payments	8	**138**	258
Amortisation of intangible assets	8	**141**	94
Impairment loss on goodwill	8	**11,620**	17,171
Impairment loss on other receivables	8	–	17,130
Interest income	5	**(902)**	(4,704)
Depreciation	8	**15,525**	7,502
Loss on disposals of property, plant and equipment	8	**5,263**	2,155
Net gain on disposals of subsidiaries	36	–	(18,075)
Loss on re-measurement to fair value less costs to sell	10	–	9,230
Loss on derecognition of promissory notes	8	–	18,659
Bad debts recovery	5	**(8,834)**	–
Equity-settled share option expenses	33(c)	**19,056**	–
Operating profit before working capital changes		**422,694**	241,148
Increase in inventories		**(4,524)**	(9,334)
Decrease/(Increase) in accounts receivable		**29,248**	(18,371)
(Increase)/Decrease in prepayments, deposits and other receivables		**(62,788)**	104,055
Decrease in assets classified as held for sale		–	11,424
Decrease in liabilities associated with assets classified as held for sale		–	(42,804)
Increase in accounts and bills payables		**152,899**	8,052
(Decrease)/Increase in other payables and accruals		**(273,740)**	16,757
Increase in accrued reclamation obligations		**21,220**	17,455
Cash generated from operations		**285,009**	328,382
Interest received		**902**	4,704
Interest paid		**(11,631)**	(15,493)
Income tax paid		**(117,873)**	(63,752)
Net cash generated from operating activities		**156,407**	253,841

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
Cash flows from investing activities			
Purchases of mining rights		**(18,879)**	(14,867)
Purchases of other intangible assets		**(32)**	(250)
Purchases of property, plant and equipment		**(74,277)**	(57,454)
Proceeds from disposals of property, plant and equipment		**710**	2,842
Acquisitions of subsidiaries (net of cash and cash equivalent acquired)	35	**–**	(354,558)
Disposals of subsidiaries (net of cash and cash equivalent disposed)	36	**–**	28,360
Increase in pledged bank deposits		**(85,170)**	–
Net cash used in investing activities		**(177,648)**	(395,927)
Cash flows from financing activities			
New bank loans		**179,645**	147,805
Repayments of bank loans		**(200,357)**	(113,187)
Repayments of promissory notes		**–**	(76,993)
Proceeds from placement of shares		**–**	37,910
Proceeds from exercise of share options		**–**	9,230
Proceeds from issue of convertible bonds		**–**	194,500
Net cash (used in)/generated from financing activities		**(20,712)**	199,265
Net (decrease)/increase in cash and cash equivalents		**(41,953)**	57,179
Cash and cash equivalents at 1 January		**115,180**	62,405
Effect of foreign exchange rate changes		**6,904**	(4,404)
Cash and cash equivalents at 31 December		**80,131**	115,180

Notes to the Financial Statements

For the year ended 31 December 2008

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 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 had already been disposed of in May 2007 (see notes 10 and 36). The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 24 to 94 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 2008 were approved for issue by the board of directors on 6 April 2009.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs ") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

Notes to the Financial Statements

For the year ended 31 December 2008

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate[1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HKFRSs (Amendments)	Annual improvements to HKFRSs 2008[6]
HK(IFRIC)-Int 2 (Amendment)	Members' Shares in Co-operative Entities and Similar Instruments[1]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Reassessment of Embedded Derivatives[7]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[5]

[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 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers of assets from customers received on or after 1 July 2009
[6] Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS
[7] Effective for annual periods beginning on or after 30 June 2009

The directors anticipate that all of these pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, HKAS 1 (Revised) *Presentation of Financial Statements* is expected to materially change the presentation of the Group's financial statements.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

The amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expenses 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). The amendment does not affect the financial positions or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 *Operating Segments* may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial positions.

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.

As at 31 December 2008, two of the Company's convertible bonds were classified as current liabilities of which the 1% coupon convertible bonds with principal amount of HK$20,000,000 with a conversion price of HK$0.35 per share ("CB1") would be matured on 24 October 2009; therefore, the carrying amount of CB1 amounted to approximately HK$18,658,000 was classified as current liabilities. Subsequent to year end date, CB1 has been fully converted into the Company's shares.

The holders of another convertible bonds, the 2% coupon convertible bonds with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000) with a conversion price of HK$1.8 per share with maturity date on 10 December 2010 ("CB3"), have the right at such holders' options to require the Company to redeem all or some only of the CB3 on 10 December 2009. In preparing the Company's and the Group's financial statements for the year ended 31 December 2008, the CB3 and compound derivative components amounted to approximately HK$167,796,000 and HK$4,788,000 respectively were therefore classified as current liabilities.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

As at 31 December 2008, the Group had net current liabilities of approximately HK$170,025,000 (2007: net current assets of approximately HK$38,406,000) and the Company had net current liabilities of approximately HK$194,385,000 (2007: net current assets of approximately HK$77,305,000).

In presenting the consolidated financial statements for the year ended 31 December 2008, the directors have given considerations to the future financial positions of the Group and the Company in light of the financial conditions as described in the preceding paragraph. The directors are taking active steps to improve the financial positions of the Group and the Company as described below.

The consolidated financial statements have been prepared on the assumption that the Group and the Company will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2008 and subsequently thereto up to the date of approval of these consolidated financial statements. In order to improve the Group's and the Company's financial positions, immediate liquidity and cash flows, and otherwise to sustain the Group and the Company as a going concern, the directors have adopted several measures together with other measures in progress at the date of approval of these consolidated financial statements which include, but not limited to, the following:

(a) The Group has been taking stringent cost controls in general and administrative expenses;

(b) The Group has been implementing various strategies to enhance the Group's revenue/turnover, including but not limited to:

 (i) continue to stabilise coal production to fulfill the long-term supply to the power companies in the PRC; and

 (ii) explore more opportunities in the coal business.

(c) The directors will consider various alternatives to strengthen the capital base of the Company and the Group including through fund raising and debt re-financing/debt re-arrangement exercises.

On the basis that the Group and the Company are able to improve and generate adequate cash flows from its continuing operations and through the successful implementation of the measures described above in the foreseeable future, the directors are satisfied that both the Group and the Company will be able to meet in full their financial obligations as they fall due for the twelve months from 31 December 2008. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2008 on a going concern basis.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

Should the above measures be failed or insufficient, or should the going concern basis be inappropriate, adjustments would have to be made to the consolidated financial statements to reduce the value of the Group's and the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these potential adjustments has not yet been reflected in the consolidated financial statements.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

– 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.

– 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.

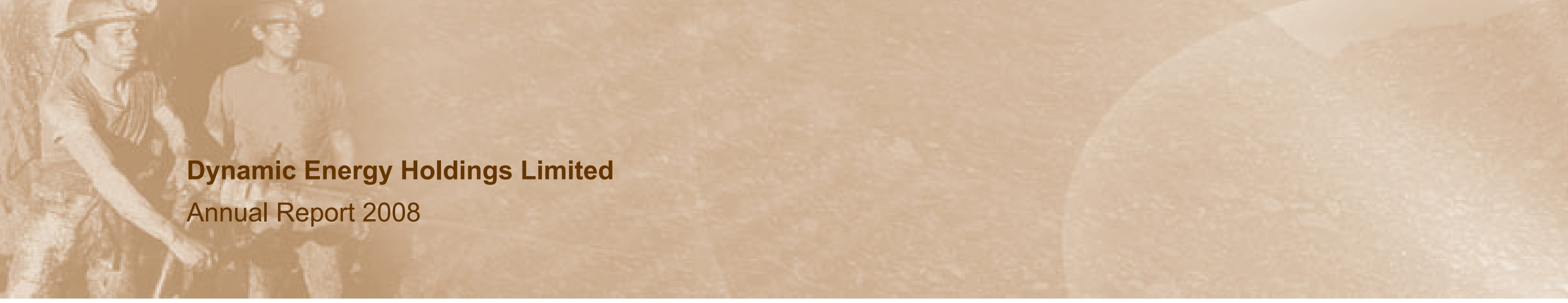
3.7 Goodwill

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 Note 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.



Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 their estimated useful lives of two years.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3.12. 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 proved and probable reserves of the coal mine.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Property, plant and equipment (Continued)

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Impairment of assets (Continued)

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.

3.13 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 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.

3.15 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. Cost of coal is stated at weighted average cost whereas costs of spare parts and consumables are stated at first-in first-out or weighted average basis as appropriate, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 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.

3.17 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.

3.18 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 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.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Financial liabilities

The Group's financial liabilities include bank loans, accounts and bills payables, other payables and accruals, compound derivative financial instruments and convertible bonds.

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 bills payables / other payables and accruals

Accounts and bills payables / other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Financial liabilities (Continued)

Convertible bonds (Continued)

(i) Convertible bonds that contain an equity component (Continued)

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 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.

3.22 Related parties

For the purpose of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Financial Statements

For the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) Amortisation of mining rights

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

(iv) Income taxes

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

Notes to the Financial Statements

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(v) Convertible bonds

The fair values of convertible bonds 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 will 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.

(ix) Impairment of mining rights

Mining rights are carried at cost less accumulated amortisation. The carrying amount is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of mining rights exceeds its recoverable amount. The recoverable amount is the higher of the fair value of mining rights less costs to sell and value in use. In estimating the recoverable amount of mining rights, various assumptions, including the Group having uninterrupted rights to operate the coal mines owned by the Group, are made. If future events do not correspond to such assumptions, the recoverable amount will need to be revised, and this may have an impact on the Group's results of operations and financial positions.

(x) Going concern assumption

Like other coal mining companies in the PRC, the Group's operating activities are subject to regulations issued by the Chinese government in aspects such as industry policies, project approval, granting of permits, industry special tax and levy, environmental protection and safety standards. Certain future policies adopted by the Chinese government in industries such as coal mining may have impacts on the Group's operations and future cash inflows. Management will reassess the going concern assumption with reference to the above policies.

Notes to the Financial Statements

For the year ended 31 December 2008

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	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue/Turnover						
Sale of coal	**789,960**	564,757	**–**	–	**789,960**	564,757
Sale of electricity	**–**	–	**–**	58,925	**–**	58,925
	789,960	564,757	**–**	58,925	**789,960**	623,682
Other income						
Interest income*	**902**	4,677	**–**	27	**902**	4,704
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
Bad debts recovery	**8,834**	–	**–**	–	**8,834**	–
Sale of ancillary materials	**3,536**	2,026	**–**	–	**3,536**	2,026
Others	**835**	2,349	**–**	–	**835**	2,349
	14,107	31,035	**–**	27	**14,107**	31,062

* During the year ended 31 December 2008, approximately HK$0.1 million (2007: HK$4.2 million) included in interest income of continuing operations represented interest received or receivable arising from other receivables computed using the effective interest method, which was lent to an independent third party and bore interest at fixed rate of 6.73% per annum (2007: 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:

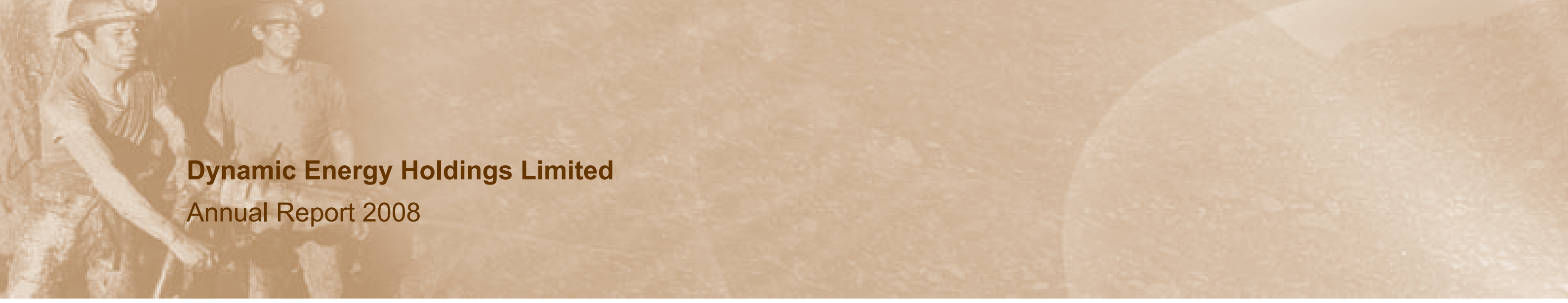
(i) the production and sale of coal segment involves the sale of coal;

(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 (2007: Nil).

During 2007, the Group disposed of the generation and sales of electricity operations.



Notes to the Financial Statements

For the year ended 31 December 2008

6. SEGMENT INFORMATION (Continued)

(a) Business segments

	Continuing operations						Discontinued operations			
	Production and sale of coal		Others		Total		Generation and sale of electricity		Consolidated	
	2008 HK$'000	2007 *HK$'000*	**2008 HK$'000**	2007 *HK$'000*	**2008 HK$'000**	2007 *HK$'000*	**2008 HK$'000**	2007 *HK$'000*	**2008 HK$'000**	2007 *HK$'000*
Segment revenue:										
Sales to customers	**789,960**	564,757	**–**	–	**789,960**	564,757	**–**	58,925	**789,960**	623,682
Segment results	**404,144**	200,843	**(43,402)**	(20,031)	**360,742**	180,812	**–**	13,049	**360,742**	193,861
Gain on disposal of subsidiaries	**–**	–	**–**	18,075	**–**	18,075	**–**	–	**–**	18,075
Operating profit/(loss)	**404,144**	200,843	**(43,402)**	(1,956)	**360,742**	198,887	**–**	13,049	**360,742**	211,936
Change in fair value of compound derivative financial instruments	**–**	–	**134,693**	58,150	**134,693**	58,150	**–**	–	**134,693**	58,150
Finance costs	**(7,541)**	(9,562)	**(67,026)**	(26,066)	**(74,567)**	(35,628)	**–**	(2,652)	**(74,567)**	(38,280)
Profit before income tax	**396,603**	191,281	**24,265**	30,128	**420,868**	221,409	**–**	10,397	**420,868**	231,806
Income tax expense	**(108,204)**	(71,945)	**–**	–	**(108,204)**	(71,945)	**–**	(354)	**(108,204)**	(72,299)
	288,399	119,336	**24,265**	30,128	**312,664**	149,464	**–**	10,043	**312,664**	159,507
Loss on re-measurement to fair value less costs to sell	**–**	–	**–**	–	**–**	–	**–**	(9,230)	**–**	(9,230)
Profit for the year	**288,399**	119,336	**24,265**	30,128	**312,664**	149,464	**–**	813	**312,664**	150,277
Segment assets/ Total assets	**1,253,163**	973,830	**246,990**	329,611	**1,500,153**	1,303,441	**–**	–	**1,500,153**	1,303,441
Segment liabilities	**301,458**	368,481	**4,094**	10,965	**305,552**	379,446	**–**	–	**305,552**	379,446
Unallocated liabilities	**–**	–	**–**	–	**429,509**	525,781	**–**	–	**429,509**	525,781
Total liabilities	**301,458**	368,481	**4,094**	10,965	**735,061**	905,227	**–**	–	**735,061**	905,227
Depreciation	**15,490**	7,470	**35**	32	**15,525**	7,502	**–**	–	**15,525**	7,502
Amortisation of prepaid lease payments	**138**	258	**–**	–	**138**	258	**–**	–	**138**	258
Amortisation of mining rights	**19,945**	11,005	**–**	–	**19,945**	11,005	**–**	–	**19,945**	11,005
Capital expenditure – addition of property, plant and equipment, prepaid lease payments, mining rights and other intangible assets	**93,188**	72,414	**–**	157	**93,188**	72,571	**–**	–	**93,188**	72,571
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs *(note 35)*	**–**	–	**–**	(21,983)	**–**	(21,983)	**–**	–	**–**	(21,983)
Impairment loss on goodwill *(note 19)*	**11,620**	17,171	**–**	–	**11,620**	17,171	**–**	–	**11,620**	17,171
Impairment loss on other receivables	**–**	17,130	**–**	–	**–**	17,130	**–**	–	**–**	17,130

Notes to the Financial Statements

For the year ended 31 December 2008

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	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest charge on bank loans – wholly repayable within five years	**7,541**	9,562	**–**	2,652	**7,541**	12,214
Effective interest expense on convertible bonds repayable within five years	**67,026**	7,400	**–**	–	**67,026**	7,400
Effective interest expense on promissory notes repayable within five years	**–**	18,666	**–**	–	**–**	18,666
Interest expenses on financial liabilities stated at amortised cost	**74,567**	35,628	**–**	2,652	**74,567**	38,280

Notes to the Financial Statements

For the year ended 31 December 2008

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cost of inventories sold	**293,884**	272,223	**–**	42,303	**293,884**	314,526
Auditors' remuneration	**1,092**	843	**–**	–	**1,092**	843
Depreciation*	**15,525**	7,502	**–**	–	**15,525**	7,502
Operating lease charges on land, buildings and office equipment	**1,766**	1,050	**–**	–	**1,766**	1,050
Amortisation of prepaid lease payments	**138**	258	**–**	–	**138**	258
Amortisation of mining rights	**19,945**	11,005	**–**	–	**19,945**	11,005
Amortisation of intangible assets	**141**	94	**–**	–	**141**	94
Employee benefit expense, (including directors' remuneration and retirement benefit scheme contributions) *(note 13)*	**128,312**	93,681	**–**	5,079	**128,312**	98,760
Loss on re-measurement to fair value less costs to sell	**–**	–	**–**	9,230	**–**	9,230
Loss on disposals of property, plant and equipment	**5,263**	2,155	**–**	–	**5,263**	2,155
Impairment loss on goodwill	**11,620**	17,171	**–**	–	**11,620**	17,171
Impairment loss on other receivables	**–**	17,130	**–**	–	**–**	17,130
Loss on derecognition of promissory notes	**–**	18,659	**–**	–	**–**	18,659

* Depreciation of approximately HK$9.3 million (2007: approximately HK$4.9 million) has been included in cost of sales and approximately HK$6.2 million (2007: approximately HK$2.6 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 (2007: Nil).

Corporate income tax arising from continuing operations in the PRC is calculated at the statutory income tax rate of 25% (2007: 33%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations in the PRC. During the year ended 31 December 2007, the discontinued operations operating in the PRC was subject to a preferential corporate income tax rate of 15%.

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax						
– PRC income tax	**108,204**	71,945	**–**	354	**108,204**	72,299

Reconciliation between income tax expense and accounting profit at applicable tax rates is as follows:

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax		
Continuing operations	**420,868**	221,409
Discontinued operations	**–**	1,167
	420,868	222,576
Tax on profit before income tax, calculated at the rates applicable to profit in the tax jurisdictions	**103,112**	74,257
Tax effect of non-taxable income	**(22,593)**	(22,317)
Tax effect of non-deductible expenses	**27,553**	19,060
Tax losses not recognised	**132**	1,299
Income tax expense	**108,204**	72,299

Notes to the Financial Statements

For the year ended 31 December 2008

10. 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 Electric Industry Co. Ltd ("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 considered 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 was as follows:

	Period from 1 January 2007 to 31 May 2007 *HK$'000*
Revenue	58,925
Other revenue	27
Expenses	(48,555)
Income tax expense	(354)
	10,043
Loss on re-measurement to fair value less costs to sell	(9,230)
Profit for the period from discontinued operations	813
Operating cash flows	3,154
Investing cash flows	739
Financing cash flows	(24,875)
Total cash flows	(20,982)

Notes to the Financial Statements

For the year ended 31 December 2008

11. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of approximately HK$283.5 million (2007: approximately HK$134.2 million), a profit of approximately HK$36.7 million (2007: approximately HK$31.8 million) has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE – GROUP

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

	2008 ***HK$'000***	2007 *HK$'000*
Profit		
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per share	**283,532**	134,195
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**67,026**	7,400
Change in fair value of compound derivative financial instruments	**(134,693)**	(58,150)
Profit for the year attributable to the equity holders of the Company for the purpose of diluted earnings per share	**215,865**	83,445

	2008 ***'000***	2007 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**668,621**	619,023
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**7,430**	31,714
Convertible bonds	**372,531**	90,007
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,048,582**	740,744

Notes to the Financial Statements

For the year ended 31 December 2008

12. EARNINGS PER SHARE – GROUP (Continued)

The diluted earnings per share attributable to the equity holders of the Company for the year ended 31 December 2008 is based on the profit attributable to the equity holders of the Company of approximately HK$215.9 million (2007: approximately HK$83.4 million) and on the weighted average of 1,048,582,000 (2007: 740,744,000) ordinary shares outstanding during the year.

From continuing operations

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

	2008 *HK$'000*	2007 *HK$'000*
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per share	**283,532**	134,195
Profit for the year from discontinued operations	**–**	813
Less: Profit for the year attributable to minority interests from discontinued operations	**–**	454
Profit for the year attributable to the equity holders of the Company from discontinued operations	**–**	359
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per share from continuing operations	**283,532**	133,836
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**67,026**	7,400
Change in fair value of compound derivative financial instruments	**(134,693)**	(58,150)
Profit for the purpose of diluted earnings per share attributable to the equity holders of the Company from continuing operations	**215,865**	83,086

12. EARNINGS PER SHARE – GROUP (Continued)

From continuing operations (Continued)

The basic earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2008 is based on the profit attributable to the equity holders of the Company of approximately HK$283.5 million (2007: approximately HK$133.8 million) and on the weighted average of 668,621,000 (2007: 619,023,000) ordinary shares outstanding during the year.

The diluted earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2008 is based on the profit attributable to the equity holders of the Company of approximately HK$215.9 million (2007: approximately HK$83.1 million) and on the weighted average of 1,048,582,000 (2007: 740,744,000) ordinary shares outstanding during the year.

From discontinued operations

No basic earnings per share and diluted earnings per share is presented for the year ended 31 December 2008 as the discontinued operations were disposed of during the year ended 31 December 2007.

Basic earnings per share attributable to the equity holders of the Company from the discontinued operations was HK0.06 cents per share, based on the profit for the year ended 31 December 2007 attributable to the equity holders of the Company from discontinued operations of approximately HK$0.4 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 was HK0.05 cents per share, based on the profit for the year ended 31 December 2007 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 2007.

Notes to the Financial Statements

For the year ended 31 December 2008

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Wages, salaries, allowance and other benefits in kind	**109,139**	93,622	**–**	5,079	**109,139**	98,701
Share options granted to directors and employees	**19,056**	–	**–**	–	**19,056**	–
Retirement benefit scheme contribution – defined contribution plans	**117**	59	**–**	–	**117**	59
	128,312	93,681	**–**	5,079	**128,312**	98,760

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*
2008						
Executive Directors						
Bao Hongkai ("Mr. Bao")	–	1,310	1,881	2,511	10	5,712
Wu Jiahong ("Mr. Wu")	–	1,724	1,881	11	12	3,628
Cheng Koon Cheung ("Mr. Cheng")	240	–	–	–	–	240
Xu Lidi ("Mr. Xu")#	–	1,226	–	9	–	1,235
Independent Non-Executive Directors						
Chan Kin Sang	135	–	–	–	–	135
Ng Wing Hang, Patrick	135	–	–	–	–	135
Choi Man Chau, Michael	135	–	–	–	–	135
	645	4,260	3,762	2,531	22	11,220

newly appointed on 3 March 2008

Notes to the Financial Statements

For the year ended 31 December 2008

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*
2007						
Executive Directors						
Chan Chun Keung*	–	–	–	–	–	–
Judy Leissner*	–	–	–	–	–	–
Lam Chung Chak*	–	–	–	–	–	–
Chan Kin*	–	–	–	–	–	–
Li Wan Luk*	–	–	–	–	–	–
Mr. Bao	–	82	–	103	7	192
Mr. Wu	–	1,629	–	–	12	1,641
Mr. Cheng	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

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 (2007: Nil).

During the year ended 31 December 2008, 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 33 to the financial statements. The value of share options granted and vested during the year ended 31 December 2008 was calculated under HKFRS 2 *Share-based Payment*. The Group's accounting policy on share-based payment transactions is set out in note 3.19(ii). During the year ended 31 December 2007, no share options were granted to the directors in respect of their services to the Group.

There was no arrangement under which a director waived or agreed to waived any remuneration during the year (2007: Nil).

Notes to the Financial Statements

For the year ended 31 December 2008

15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included three (2007: two) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments payable to the remaining two (2007: three) individuals during the year are as follows:

	2008	2007
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,017**	2,031
Share based payment	**2,661**	–
Retirement benefit scheme contributions	**12**	21
	3,690	2,052

The emoluments fell within the following bands:

	2008	2007
Emolument bands		
Nil – HK$1,000,000	**–**	2
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**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 (2007: Nil).

During the year ended 31 December 2008, 3,750,000 (2007: Nil) share options have been granted to the remaining two (2007: three) highest paid individuals of the Group to subscribe for ordinary shares of the Company. The value of share options granted and vested during the year ended 31 December 2008 was calculated under HKFRS 2 *Share-based Payment*. The Group's accounting policy on share-based payment transactions is set out in note 3.19(ii).

Notes to the Financial Statements

For the year ended 31 December 2008

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 2007							
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 35)*	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
Year ended 31 December 2008							
Opening net book value	**87,420**	**9,515**	**32,294**	**4,952**	**9,859**	**–**	**144,040**
Exchange difference	**5,456**	**580**	**1,992**	**298**	**592**	**–**	**8,918**
Additions	**27,097**	**4,163**	**21,441**	**2,084**	**8,474**	**11,018**	**74,277**
Disposals	**(3,558)**	**(550)**	**(1,253)**	**(9)**	**(603)**	**–**	**(5,973)**
Depreciation	**(5,641)**	**(1,728)**	**(4,514)**	**(868)**	**(2,774)**	**–**	**(15,525)**
Closing net book value	**110,774**	**11,980**	**49,960**	**6,457**	**15,548**	**11,018**	**205,737**
At 31 December 2008							
Cost	**127,924**	**15,624**	**59,567**	**8,728**	**22,211**	**11,018**	**245,072**
Accumulated depreciation	**(17,150)**	**(3,644)**	**(9,607)**	**(2,271)**	**(6,663)**	**–**	**(39,335)**
Net book value	**110,774**	**11,980**	**49,960**	**6,457**	**15,548**	**11,018**	**205,737**

Notes to the Financial Statements

For the year ended 31 December 2008

17. PREPAID LEASE PAYMENTS – GROUP

	2008	2007
	HK$'000	*HK$'000*
Opening net book amount	**1,310**	1,477
Exchange difference	**83**	91
Amortisation charge for the year	**(138)**	(258)
Closing net book amount	**1,255**	1,310

All prepaid lease payments at 31 December 2008 and 2007 for leasehold interests in land are held in the PRC on medium-term leases.

At 31 December 2007 and 2008, 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 Henan Qunda Law Firm (河南群達律師事務所), 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

	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	**397,801**	397,801
Due from subsidiaries	**177,663**	113,242
	575,464	511,043

Amounts due from 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 theses subsidiaries.

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected 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.

Notes to the Financial Statements

For the year ended 31 December 2008

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Particulars of the principal subsidiaries of the Company at 31 December 2008 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	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	100	Investment holding
Indirectly held				
Popular Sky Coal Industrial Limited	Hong Kong	1 share of HK$1	100	Investment holding
Dynamic Energy Development (Shenzhen) Company Limited#	PRC	HK$20,000,000	100	Investment holding
Zhong Yue Energy Development (Shenzhen) Company Limited#	PRC	HK$400,000,000	100	Investment holding
Henan Jinfeng Coal Industrial Group Company Limited# (formerly known as Jinfeng Industrial and Trading Company Limited#)	PRC	RMB118,000,000	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

English names for identification purpose only.

Notes to the Financial Statements

For the year ended 31 December 2008

19. GOODWILL – GROUP

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

	2008	2007
	HK$'000	*HK$'000*
Carrying amount at 1 January	**251,575**	268,746
Impairment loss	**(11,620)**	(17,171)
Carrying amount at 31 December	**239,955**	251,575
Closing carrying amount		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(28,791)**	(17,171)
Net carrying amount at 31 December	**239,955**	251,575

Goodwill at 31 December 2007 and 2008 arose from the acquisitions of CIL and represented the future economic benefits from the production and sales of coal.

The carrying amount of goodwill has been allocated to the production and sale of coal cash-generating unit 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. Management's key assumptions were used in the value-in-use calculation of the cash-generating units for the year ended 31 December 2008. 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.

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

	2008	2007
Growth rate	**8.0% per annum**	11.0% per annum
Discount rate	**9.6% per annum**	8.5% per annum

19. GOODWILL – GROUP (Continued)

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 reasonably possible 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 2008. This resulted in reduction of goodwill associated with the production and sale of coal. The related impairment loss of approximately HK$11.6 million (2007: HK$17.2 million) 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

	2008	2007
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**615,125**	25,213
Accumulated amortisation	**(11,256)**	(251)
Net carrying amount	**603,869**	24,962
Net carrying amount at 1 January	**603,869**	24,962
Additions	**18,879**	14,867
Acquisition of subsidiaries *(note 35)*	**–**	554,266
Amortisation	**(19,945)**	(11,005)
Exchange difference	**38,138**	20,779
Net carrying amount at 31 December	**640,941**	603,869
At 31 December		
Gross carrying amount	**673,061**	615,125
Accumulated amortisation	**(32,120)**	(11,256)
Net carrying amount	**640,941**	603,869

At 31 December 2008, the remaining useful lives of mining rights held by the Group ranged from 2.5 to 14.0 years.

Notes to the Financial Statements

For the year ended 31 December 2008

21. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence	
	2008	2007
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**309**	60
Accumulated amortisation	**(94)**	–
Net carrying amount	**215**	60
Net carrying amount at 1 January	**215**	60
Additions	**32**	250
Amortisation	**(141)**	(94)
Exchange difference	**12**	(1)
Net carrying amount at 31 December	**118**	215
At 31 December		
Gross carrying amount	**368**	309
Accumulated amortisation	**(250)**	(94)
Net carrying amount	**118**	215

22. INVENTORIES – GROUP

	2008	2007
	HK$'000	*HK$'000*
Coal	**8,205**	6,075
Spare part and consumables	**16,899**	13,198
	25,104	19,273

Notes to the Financial Statements

For the year ended 31 December 2008

23. ACCOUNTS RECEIVABLE – GROUP

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

	2008	2007
	HK$'000	*HK$'000*
Current – 90 days	**49,443**	84,145
91 – 180 days	**11,416**	–
	60,859	84,145

At 31 December 2008, accounts receivable of approximately HK$44.7 million (2007: approximately HK$35.2 million) were pledged to secure bank loans of the Group (note 27).

The ageing analysis of the Group's trade receivables that were not impaired, based on due date is as follows:

	2008	2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**49,303**	84,145
Past due of less than 3 months but not impaired	**11,556**	–
	60,859	84,145

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

Notes to the Financial Statements

For the year ended 31 December 2008

24. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Group

(i) Pledged bank deposits

The Group's bills payables amounting to approximately HK$153.3 million (equivalent to RMB135.0 million) (2007: Nil) are secured by the pledge of the Group's time deposits of approximately HK$85.2 million (equivalent to RMB75.0 million) as at 31 December 2008 (2007: Nil) (note 25). The effective interest rates of the pledged bank deposits are ranging from 1.98% to 3.78% per annum (2007: Nil). The pledged bank deposits have a maturity of 180 days.

(ii) Cash and cash equivalents

As at 31 December 2008, included in cash and cash equivalents of the Group is approximately HK$78.1 million (2007: approximately HK$24.6 million) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business in the PRC.

(b) Company

	2008	2007
	HK$'000	*HK$'000*
Cash and cash equivalents	**686**	88,000

25. ACCOUNTS AND BILLS PAYABLES – GROUP

	2008	2007
	HK$'000	*HK$'000*
Accounts payable	**15,180**	14,596
Bills payable	**153,305**	–
	168,485	14,596

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:

	2008	2007
	HK$'000	*HK$'000*
Current – 90 days	**8,332**	12,908
91 – 180 days	**4,441**	1,112
Over 180 days	**2,407**	576
	15,180	14,596

26. ACCRUED RECLAMATION OBLIGATIONS

	2008 HK$'000	2007 HK$'000
At 1 January	**45,571**	25,772
Provision made during the year	**26,442**	19,836
Provision used during the year	**(5,222)**	(2,381)
Exchange difference	**3,110**	2,344
At 31 December	**69,901**	45,571

27. BANK LOANS – GROUP

	2008 HK$'000	2007 HK$'000
Bank loans repayable within one year and classified as current liabilities	**68,130**	83,737
Analysed as follows:		
Secured	**45,418**	30,347
Unsecured	**22,712**	53,390
	68,130	83,737

At 31 December 2008, bank loans of approximately HK$45.4 million (2007: approximately HK$30.3 million) were denominated in RMB and were secured by certain accounts receivable (note 23), bear interest at fixed rate of 7.3% per annum; bank loans of approximately HK$22.7 million (2007: approximately HK$53.4 million) were denominated in RMB and were unsecured, bear interest at fixed rate of 12.14% per annum (2007: 6.73% to 11.32% per annum) and of approximately HK$45.4 million was guaranteed by an independent third party (2007: approximately HK$21.4 million and HK$32.0 million were guaranteed by an independent third party and a director of a subsidiary respectively).

Notes to the Financial Statements

For the year ended 31 December 2008

28. CONVERTIBLE BONDS – GROUP AND COMPANY

On 24 October 2006, the Company issued 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 3 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 31 December 2008 and 2007, 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") to Dragon Rich 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. 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 year. On 5 December 2008, the third party transferred the remaining CB2 with principal amount of HK$36,000,000 to Dragon Rich. As at 31 December 2008, the holders of CB2 was Dragon Rich with principal amount of HK$227,000,000 (2007: HK$230,000,000).

On 10 December 2007, the Company issued a 2% coupon convertible bonds (i.e. the 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.

Notes to the Financial Statements

For the year ended 31 December 2008

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

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:

	2008			
	CB1	**CB2**	**CB3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Proceeds of issue	**20,000**	**230,000**	**194,500**	**444,500**
Equity component	**(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**
Accumulated payment of interest	**(400)**	**–**	**(3,890)**	**(4,290)**
Accumulated interest expense	**3,640**	**40,089**	**30,980**	**74,709**
Conversion of convertible bonds *(note 32(d))*	**–**	**(1,043)**	**–**	**(1,043)**
Liability component at 31 December	**18,658**	**105,884**	**167,796**	**292,338**
Less: amount included under current liabilities	**(18,658)**	**–**	**(167,796)**	**(186,454)**
Amount included under non-current liabilities	**–**	**105,884**	**–**	**105,884**

	2007			
	CB1	CB2	CB3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue	20,000	230,000	194,500	444,500
Equity component	(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
Accumulated payment of interest	(200)	–	–	(200)
Accumulated interest expense	1,889	4,189	1,605	7,683
Liability component at 31 December	17,107	71,027	142,311	230,445

Notes to the Financial Statements

For the year ended 31 December 2008

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Compound derivative financial instrument

	2008			2007		
	CB2	CB3	Total	CB2	CB3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January	120,119	38,687	158,806	–	–	–
Initial recognition upon issuance of bonds	–	–	–	163,162	53,794	216,956
Fair value gain	(100,794)	(33,899)	(134,693)	(43,042)	(15,108)	(58,150)
Conversion of convertible bonds *(note 32(d))*	(881)	–	(881)	–	–	–
At 31 December	18,444	4,788	23,232	120,120	38,686	158,806
Less: amount included under current liabilities	–	(4,788)	(4,788)	–	–	–
Amount included under non-current liabilities	18,444	–	18,444	120,120	38,686	158,806

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

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

At 31 December 2008, the compound derivative financial instruments were revalued by BMI Appraisals Limited. The fair value of the derivative component of the CB2 was calculated using the Binomial model. The fair value of the compound derivate components of CB3 was calculated using Binomial model, Hull-White model and Trinomial model. These valuation techniques are based on available observable market data. The major inputs used in the models as at 16 November 2007, 10 December 2007 and 31 December 2008 were as follows:

	CB2 16 November 2007	CB3 10 December 2007	CB2 31 December 2007	CB3 31 December 2007	**CB2 31 December 2008**	**CB3 31 December 2008**
Stock price	HK$1.60	HK$1.58	HK$1.35	HK$1.35	**HK$0.48**	**HK$0.48**
Expected volatility	88.87%	89.23%	90.08%	89.91%	**76.26%**	**75.45%**
Risk free rate	2.705%	2.239%	2.764%	2.779%	**0.493%**	**0.509%**
Expected life	36 months	36 months	35 months	35 months	**23 months**	**23 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 1 January 2008 to 31 December 2008 (2007: from initial recognition dates to 31 December 2007) resulted in a fair value gain of approximately HK$134.7 million (2007: 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 2008.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rates of approximately 10.00%, 50.92% and 20.80% to the liability components of CB1, CB2 and CB3 respectively.

Notes to the Financial Statements

For the year ended 31 December 2008

29. OTHER PAYABLES – GROUP

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) (note 35(b)). At 31 December 2008, the remaining unsettled consideration of the above acquisition is approximately RMB25.2 million (equivalent to approximately HK$28.6 million) (2007: RMB244.2 million (equivalent to approximately HK$252.0 million)). The amount due is unsecured, interest free and not repayable within the next twelve months.

30. 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 *HK$'000*
Fair value of promissory notes at date of issue	267,851
Accumulated interest expense	23,562
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	–

31. DEFERRED TAX

The Group has tax losses arising in Hong Kong of approximately HK$2.1 million (2007: approximately HK$1.3 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.

As at 31 December 2008, deferred tax liabilities amounted to approximately HK$26.3 million (2007: Nil) in respect of the aggregate amount of temporary differences associated with the undistributed earnings of certain of the Group's subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of the differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2008

32. SHARE CAPITAL

	Notes	2008 Number of shares	2008 HK$'000	2007 Number of shares	2007 HK$'000
Authorised:					
As at 1 January, ordinary shares of HK$0.1 each (2007: HK$0.2 each)		**3,000,000,000**	**300,000**	1,000,000,000	200,000
Sub-division of ordinary shares to HK$0.1 each	*(c)(iii)*	–	–	1,000,000,000	–
Increased in authorised ordinary shares	*(c)(iv)*	–	–	1,000,000,000	100,000
As 31 December, ordinary shares of HK$0.1 each (2007: HK$0.1 each)		**3,000,000,000**	**300,000**	3,000,000,000	300,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.1 each (2007: HK$0.2 each)		**666,862,614**	**66,686**	540,862,614	108,173
Placement of new ordinary shares of HK$0.2 each	*(a)*	–	–	100,000,000	20,000
Exercise of share options for new ordinary shares of HK$0.2 each	*(b)*	–	–	500,000	100
Capital reorganisation	*(c)(i)*	–	–	–	(64,137)
Exercise of share options for new ordinary shares of HK$0.1 each	*(b)*	–	–	25,500,000	2,550
Conversion of convertible bonds for new ordinary shares of HK$0.1 each	*(d)*	**2,727,271**	**273**	–	–
		669,589,885	**66,959**	666,862,614	66,686

Notes:

(a) Pursuant to an ordinary resolution, 100,000,000 new ordinary shares of HK$0.2 each were issued at HK$0.38 per share for cash for the working capital of the Group to support its ongoing operations during 2007. The related share issue expenses of HK$0.09 million were dealt with in the share premium account.

(b) During 2007, 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, was resulted.

Notes to the Financial Statements

For the year ended 31 December 2008

32. SHARE CAPITAL (Continued)

Notes: (Continued)

(c) 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.

(d) During 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 28). As a result, there was an increase in the share capital and share premium of HK$273,000 and HK$1,651,000 respectively.

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

33. 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.

Notes to the Financial Statements

For the year ended 31 December 2008

33. SHARE OPTION SCHEME (Continued)

(a) Movements of the share options and their exercise price

2008

Name or category of participant	At 1 January 2008	Granted during the year	Exercised during the year (note (i))	At 31 December 2008	Date of grant of share options (note (ii))	Exercise period of share options	Exercise price of share options (note (iii))
Directors							
Mr. Bao	3,750,000	–	–	**3,750,000**	30 November 2006	30 November 2006 to 20 October 2014	HK$0.355
	–	2,650,000	–	**2,650,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$1.376
Mr. Wu	3,750,000	–	–	**3,750,000**	30 November 2006	30 November 2006 to 20 October 2014	HK$0.355
	–	2,650,000	–	**2,650,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$1.376
Mr. Xu*	3,750,000	–	–	**3,750,000**	30 November 2006	30 November 2006 to 20 October 2014	HK$0.355
	–	2,650,000	–	**2,650,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$1.376
	11,250,000	7,950,000	–	**19,200,000**			
Other employees							
In aggregate	–	18,900,000	–	**18,900,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$1.376
	11,250,000	26,850,000	–	**38,100,000**			
Weighted average exercise price	HK$0.355	HK$1.376	–	**HK$1.075**			

* Newly appointed as director on 3 March 2008

Notes to the Financial Statements

For the year ended 31 December 2008

33. SHARE OPTION SCHEME (Continued)

(a) Movements of the share options and their exercise price (Continued)

2007

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	3,750,000	–	–	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	HK$0.355
Mr. Wu	3,750,000	–	–	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	HK$0.355
	7,500,000	–	–	7,500,000			
Other employees							
In aggregate (including Mr. Xu)	29,750,000	–	(26,000,000)	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	HK$0.355
	37,250,000	–	(26,000,000)	11,250,000			
Weighted average exercise price	HK$0.355	–	HK$0.355	HK$0.355			

Notes:

(i) No share options were exercised during the current financial year. In respect of the share options exercised during 2007, the weighted average share price of the Company at the dates of exercise was HK$1.511 per share. The share options exercised during 2007 resulted in the issue of 26,000,000 ordinary shares of the Company (note 32(b)).

(ii) All share options granted vest on the date of grant.

(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.

(iv) The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 5.8 years (2007: 6.8 years).

Notes to the Financial Statements

For the year ended 31 December 2008

33. SHARE OPTION SCHEME (Continued)

(b) Fair value of the share options granted during the financial year

The fair value of the share options granted during the year ended 31 December 2008 is HK$0.71 per options. The fair value of equity-settled share options granted in 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 year ended 31 December 2008.

Dividend yield (%)	N/A
Expected volatility (%)	82.92
Risk-free interest rate (%)	3.130
Expected life of option (year)	N/A
Price of the Company's shares at the date of grant of the share options (HK$)*	1.41

* 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 is determined by reference to historical data and reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No special features pertinent to the options granted are incorporated into measurement of fair value.

(c) Financial effect of the share options

The amount of share-based compensation arising from granting the share options during the year was approximately HK$19.1 million which has been included in the income statement and the corresponding amount has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions. No share options were granted during the year ended 31 December 2007.

At 31 December 2008, the Company had 38,100,000 (2007: 11,250,000) 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 38,100,000 (2007: 11,250,000) additional ordinary shares of the Company and additional share capital of approximately HK$3.8 million (2007: HK$1.1 million) and share premium of approximately HK$37.1 million (2007: HK$2.9 million), before the netting-off of the related shares issue expenses and the amount that would be transferred from share option reserve to share premium.

Notes to the Financial Statements

For the year ended 31 December 2008

34. 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 32(c) to the financial statements.

The capital reserve arose from the capitalisation of retained profits of a PRC subsidiary.

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 for the period from 1 January to 30 April 2008 and RMB8.5 for the period from 1 May to 31 December 2008 (for the period on or before 31 December 2007: 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.

34. RESERVES (Continued)

(b) Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Retained Profits/ (Accumulated Losses) HK$'000	Total HK$'000
At 1 January 2007	156,771	50	2,643	5,216	4,582	(157,272)	11,990
Placement of shares *(note 32(a))*	17,910	–	–	–	–	–	17,910
Exercise of share options *(note 32(b))*	10,220	–	–	(3,640)	–	–	6,580
Capital reorganisation							
– Reduction of share capital *(note 32(c))*	–	–	64,137	–	–	–	64,137
– Reduction of share premium *(note 32(c))*	(157,272)	–	–	–	–	157,272	–
Net profit for the year	–	–	–	–	–	31,794	31,794
At 31 December 2007 and 1 January 2008	27,629	50	66,780	1,576	4,582	31,794	132,411
Issue of shares on conversion of convertible bonds	1,651	–	–	–	–	–	1,651
Employee share based compensation	–	–	–	19,056	–	–	19,056
Net profit for the year	–	–	–	–	–	36,674	36,674
At 31 December 2008	**29,280**	**50**	**66,780**	**20,632**	**4,582**	**68,468**	**189,792**

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 34(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 32(c) 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 34(a) above.

Notes to the Financial Statements

For the year ended 31 December 2008

35. 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 *HK$'000*	**Acquiree's carrying amount** *HK$'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.

Notes to the Financial Statements

For the year ended 31 December 2008

35. BUSINESS COMBINATIONS (Continued)

(b) On 25 July 2007, the Group acquired 100% entire paid-up capital of 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

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.

Notes to the Financial Statements

For the year ended 31 December 2008

35 BUSINESS COMBINATIONS (Continued)

(b) (Continued)

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.

36. 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 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 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

36. DISPOSAL OF SUBSIDIARIES (Continued)

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

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

37. OPERATING LEASE COMMITMENTS

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings and office equipments payable by the Group are as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Within one year	**711**	986
In the second to fifth year inclusive	**386**	316
After five years	**39**	117
	1,136	1,419

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 2008 (2007: Nil).

Notes to the Financial Statements

For the year ended 31 December 2008

38. CAPITAL COMMITMENTS

At 31 December 2008, 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$29.1 million (2007: approximately HK$3.5 million).

The Company did not have any significant capital commitments at 31 December 2008 (2007: Nil).

39. 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

	2008	2007
	HK$'000	*HK$'000*
Total remuneration of key management during the year *(note 14)*	**11,220**	2,433

(ii) Issuance of convertible notes

On 16 November 2007, CB2 was issued to 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 and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao and Mr. Wu were the executive directors of the Company during the years ended 31 December 2007 and 2008. Mr. Xu has been appointed as the executive director of the Company since 3 March 2008. Mr. Bao, Mr. Wu and Mr. Xu are the directors of Dragon Rich.

Notes to the Financial Statements

For the year ended 31 December 2008

40. FINANCIAL RISK MANAGEMENT

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

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The carrying amounts of accounts receivable, deposits and other receivables, pledged bank deposits 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 pledged bank deposits and cash and cash equivalents is limited because all the Group's pledged bank deposits and cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

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

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

Notes to the Financial Statements

For the year ended 31 December 2008

40. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

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

The following table illustrates the sensitivity of the Group's profit after tax and retained earnings to a possible change in interest rates of +/–0.5% (2007: +/–0.5%), with effect from the beginning of the year. The calculations are based on the Group's bank balances held at the balance sheet date. All other variables are held constant.

	Group Profit after tax and retained earnings *HK$'000*		**Company Profit after tax and retained earnings** *HK$'000*	
	+0.5%	–0.5%	+0.5%	–0.5%
31 December 2008	**219**	**(219)**	**2**	**(2)**
31 December 2007	518	(518)	342	(342)

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual balance sheet date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2007 has been prepared on the same basis.

The Group manages interest rate risk by monitoring its interest rate profile regularly. The Group adopts a policy of ensuring that most of its borrowings are on a fixed rate basis. The policies to manage interest rate risk have been followed by the Group since prior year and are considered to be effective.

40. FINANCIAL RISK MANAGEMENT (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. Some of the convertible bonds of the Company are denominated in US$ of which the exchange rate is pegged with HK$. The directors of the Company therefore are of the opinion that the Group's and Company's sensitivity to the changes in foreign currencies are low and the Group and Company, do not hedge their 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 non-derivative financial liabilities was not disclosed because their carrying value is not materially different from their fair value since their interest rates are considered as closely approximated to the prevailing market rates of similar financial instruments. Derivative financial instruments are stated at fair value.

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instrument underlies the fair value of compound derivative financial instruments of the Group. As at the balance sheet date the Group is exposed to this risk through the conversion and redemption options attached to CB2 and CB3 issued by the Company as disclosed in note 28.

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax and retained earnings to a possible change in Company's own share price of +/-10% (2007: +/-10%), based on the Group's exposure at the balance sheet date. All other variables are held constant.

	Group and Company Profit after tax and retained earnings *HK$'000*	
	+10%	-10%
31 December 2008	**(18,763)**	**18,763**
31 December 2007	(10,182)	10,182

Notes to the Financial Statements

For the year ended 31 December 2008

40. FINANCIAL RISK MANAGEMENT (Continued)

(e) Equity price risk (Continued)

Sensitivity analysis (Continued)

The assumed changes in Company's own share price are considered to be reasonably possible based on observation of current market conditions and represent the management's assessment of a reasonably possible change in Company's own share price over the period until the next annual balance sheet date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2007 has been prepared on the same basis.

(f) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of its financial obligations, and also in respect of its cash flow management.

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.

The liquidity policies have been followed by the Group since prior years and are considered as effective in managing liquidity risks.

Notes to the Financial Statements

For the year ended 31 December 2008

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) 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 2008						
	Within 6 months or on demand *HK$'000*	**6 – 12 months** *HK$'000*	**Over 1 year but within 2 years** *HK$'000*	**Over 2 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Discount** *HK$'000*	**Carrying amount** *HK$'000*
Non-derivative financial liabilities							
Accounts and bills payables	**168,485**	**–**	**–**	**–**	**168,485**	**–**	**168,485**
Other payables and accruals	**38,605**	**–**	**28,561**	**–**	**67,166**	**–**	**67,166**
Bank loans	**45,418**	**22,712**	**–**	**–**	**68,130**	**–**	**68,130**
Convertible bonds	**1,945**	**22,145**	**464,093**	**–**	**488,183**	**(195,845)**	**292,338**
Total	**254,453**	**44,857**	**492,654**	**–**	**791,964**	**(195,845)**	**596,119**

	Group As at 31 December 2007						
	Within 6 months or on demand *HK$'000*	6 – 12 months *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years *HK$'000*	Total undiscounted amount *HK$'000*	Discount *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities							
Accounts and bills payables	14,020	576	–	–	14,596	–	14,596
Other payables and accruals	50,884	16,445	251,950	–	319,279	–	319,279
Bank loans	83,737	–	–	–	83,737	–	83,737
Convertible bonds	–	4,090	24,090	467,093	495,273	(264,828)	230,445
Total	148,641	21,111	276,040	467,093	921,885	(264,828)	648,057

Notes to the Financial Statements

For the year ended 31 December 2008

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity risk (Continued)

Company
As at 31 December 2008

	Within 6 months or on demand *HK$'000*	**6 – 12 months** *HK$'000*	**Over 1 year but within 2 years** *HK$'000*	**Over 2 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Discount** *HK$'000*	**Carrying amount** *HK$'000*
Non-derivative financial liabilities							
Other payables and accruals	**4,075**	**–**	**–**	**–**	**4,075**	**–**	**4,075**
Convertible bonds	**1,945**	**22,145**	**464,093**	**–**	**488,183**	**(195,845)**	**292,338**
Total	**6,020**	**22,145**	**464,093**	**–**	**492,258**	**(195,845)**	**296,413**

Company
As at 31 December 2007

	Within 6 months or on demand *HK$'000*	6 – 12 months *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years *HK$'000*	Total undiscounted amount *HK$'000*	Discount *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities							
Other payables and accruals	10,949	–	–	–	10,949	–	10,949
Convertible bonds	–	4,090	24,090	467,093	495,273	(264,828)	230,445
Total	10,949	4,090	24,090	467,093	506,222	(264,828)	241,394

40. FINANCIAL RISK MANAGEMENT (Continued)

(g) 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 2007 and 2008 may also be categorised as follows. See notes 3.14 and 3.20 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivable				
– Accounts receivable	**60,859**	84,145	**–**	–
– Deposits and other receivables	**155,114**	77,636	**–**	24
– Pledged bank deposits	**85,170**	–	**–**	–
– Cash and cash equivalents	**80,131**	115,180	**686**	88,000
	381,274	276,961	**686**	88,024
Financial liabilities				
Financial liabilities at fair value through profit and loss				
– Compound derivative financial instruments	**23,232**	158,806	**23,232**	158,806
Financial liabilities measured at amortised cost				
– Accounts and bills payables	**168,485**	14,596	**–**	–
– Other payables and accruals	**67,166**	319,279	**4,075**	10,949
– Bank loans	**68,130**	83,737	**–**	–
– Convertible bonds	**292,338**	230,445	**292,338**	230,445
	619,351	806,863	**319,645**	400,200

Notes to the Financial Statements

For the year ended 31 December 2008

41. 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$765.1 million (2007: approximately HK$398.2 million) as capital, for capital management purpose.

42. SUBSEQUENT EVENTS

On 4 March 2009, Dragon Rich has fully converted CB1 in principal amount of HK$20,000,000 into ordinary shares of the Company. The Company has issued 57,142,857 ordinary shares with par value of HK$0.1 each to Dragon Rich. As a result, there was an increase in the share capital and share premium of HK$5.7 million and HK$13.2 million (excluding the amount that would be transferred from equity component of convertible bonds to share premium) respectively.

On the same date, two executive directors of the Company exercised their share options with exercise price of HK$0.355 for 7,500,000 ordinary shares in aggregate. As a result, there was an increase in the share capital and share premium of HK$0.8 million and HK$1.9 million respectively, before the netting-off of the related shares issue expenses and the amount that would be transferred from share option reserve to share premium.