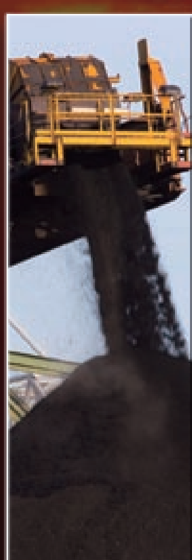
合動能源

Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578



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Corporate Information

DIRECTORS

Mr. Bao Hongkai (Chairman)
Mr. Xu Lidi (Vice-Chairman)
Mr. Wu Jiahong (Managing Director)
Mr. Li Chun On
Mr. Chan Kin Sang*
Mr. Choi Man Chau, Michael*
Mr. He Guangcai*
Mr. Ng Wing Hang, Patrick*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Li Chun On

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2204, 22/F
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

AUDITORS

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught 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 2009 *HK$'000*	Year ended 31 December 2008 *HK$'000*	Year ended 31 December 2007 *HK$'000*	Year ended 31 December 2006 *HK$'000*	Year ended 31 December 2005 *HK$'000*
Revenue					
– Continuing operations*	**863,894**	789,960	564,757	102,599	–
– Discontinued operations**	**–**	–	58,925	159,936	186,535
Profit/(Loss) before income tax from continuing operations	**174,516**	420,868	221,409	25,690	(7,725)
Income tax expenses	**(100,062)**	(108,204)	(71,945)	(16,240)	–
Profit/(Loss) after tax from continuing operations	**75,454**	312,664	149,464	9,450	(7,725)
Profit/(Loss) from discontinued operations	**–**	–	813	(88,584)	(51,502)
Minority interest	**(28,034)**	(29,132)	(16,082)	(3,549)	(3,769)
Profit/(Loss) attributable to the owners of the Company	**46,420**	283,532	134,195	(82,683)	(62,996)

* *Continuing operations for the years ended 31 December 2006, 2007, 2008 and 2009 represent the production and sales of coal.*

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

(B) ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**1,190,084**	1,088,006	1,001,009	332,583	386,459
Current assets	**824,215**	412,147	302,432	575,442	91,309
Total assets	**2,014,299**	1,500,153	1,303,441	908,025	477,768
Current liabilities	**893,229**	582,172	264,026	326,951	80,799
Non-current liabilities	**13,289**	152,889	641,201	288,448	86,344
Total liabilities	**906,518**	735,061	905,227	615,399	167,143
Total equity	**1,107,781**	765,092	398,214	292,626	310,625
– attributable to the owners of the Company	**1,012,992**	698,412	363,488	182,546	205,491
– Minority interest	**94,789**	66,680	34,726	110,080	105,134

Chairman's Statement

Year of 2009 was a challenging year to Dynamic Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). The Group was not only facing fluctuating economic environment brought about by the global financial turmoil, but also the continuous government polices on the suspension of coal mines in Henan Province for safety inspection.

Nevertheless, the Board and our employees have proceeded with confidence to handle the unfavourable economic and market conditions and to overcome the difficulties together. The Board is continuing to lead the employees and the Group with clear direction to face the challenges.

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of the Group for the year ended 31 December 2009.

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 Company owns 90% effective interest of the five coal mines with total area of approximately 7.7 square kilometres. As at 31 December 2009, the total coal reserves was approximately 33 million tons ("mt") and the designed annual production capacity was 1.41mt. The Group aims to continue to be a committed coal mine operator with a meaningful provincial niche and stable clientele established in Henan Province.

For the year of 2009, the results of the Group were being affected by several factors including the occasional suspension of coal mines, the changes in the fair value of the Company's convertible bonds and the increase in finance cost.

Year 2009 was still a tough year for the Group. Resulting from several fatal accidents happened in certain coal mines within Henan Province, the government has directed stringent policies to suspend the operation of coal mines within the province during the year. The policies particularly affected the small to medium size coal mines. The Group's coal mines have experienced occasional suspension during the year due to the government policies ordered. Notwithstanding the stringent policies ordered by the government, the Group has continued to implement high safety standards for the Group's coal mines during the year and to ensure no substantial accident was happened during the year. As at 31 December 2009, only two coal mines out of the five coal mines of the Group have been resumed for operation, namely Xiaohe Coal Mine No. 1 and Xiangyang Coal Mine. The suspension of the Group's coal mines during the year restricted the further increment of production volume coal hence the revenue generated. Therefore, there was no significant change in the production volume of the Group coal comparing between the year of 2009 and the year of 2008.

Due to the fatal accident happened in a coal mine within Henan Province in March 2010, all the small to medium size coal mines, including all of the coal mines of the Group, were then ordered to suspend in operation. In April 2010, approvals for resumption in operation of Xiaohe Coal Mine No. 1, Xiaohe Coal Mine No. 2 and Xingyun Coal Mine have been obtained from the relevant local government authorities after completion of safety inspection on these three coal mines of the Group. These three coal mines have been resumed operation as at the date of this report. For the other two coal mines owned by the Group, namely Xiaohe Coal Mine No. 3 and Xiangyang Coal Mine, due to the processes to be carried out by the relevant local government authorities on safety inspection have not yet been completed, these two coal mines are still in the stage of suspension. The management expects that the results of the Group for the year of 2010 may be affected if these two coal mines cannot be resumed in the remaining year of 2010.

Since the coal mines could possibly be suspended occasionally, the Group must strive the opportunities to further develop and expand by acquisition and consolidating of other coal mines within the province. Please see the section "Prospects" hereunder.

Other than occasional suspension of coal mines as explained above, the results of the Group for the year of 2009 was also affected by the changes in the fair value of the convertible bonds ("CBs") of the Company. As at 31 December 2009, the share price of the shares of the Company was HK$0.375 which was dropped by approximately 59.8% from the highest price (i.e. HK$0.933*) during the year. The share price as at 31 December 2009 (i.e. HK$0.375) was higher than the share price as at 31 December 2008 (i.e. HK$0.209*), as the higher the share price, the more the loss on the fair value changes would be, therefore the loss on the fair value changes on the compound derivative of the convertible bonds amounted to approximately HK$38.2 million was obtained for the year of 2009. For the year of 2008, the significant gain in the fair value changes on the compound derivative of the convertible bonds amounted to approximately HK$134.7 million was mainly due to the significant reduction in the share price as at 31 December 2008 compared with that as at 31 December 2007.

For the year of 2009, the increase in finance cost also affected the overall result of the Group. The finance cost for the year ended 31 December 2009 was increased by 92.9% (2009: approximately HK$143.9 million; 2008: approximately HK$74.6 million). The increase in finance cost for the year of 2009 was mainly due to the arisen of the loss of redemption of convertible bonds amounted to approximately HK$19.7 million and the loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand amounted to approximately HK$39.8 million. For details of these two losses, please refer to note 28.

The net profit of the Group for the year of 2009 was approximately HK$74.5 million, which was reduced by approximately 76.2% compared with the year of 2008. This was mainly due to the loss on the fair value changes on the compound derivative of the convertible bonds and the increase in finance cost as explained above.

* The share prices stated here were the closing share prices adjusted for the effects of bonus issue and open offer during the year of 2009.

Business and Financial Review

Revenue

The Group's revenue for the year ended 31 December 2009 amounted to approximately HK$863.9 million, increased by approximately 9.4% from approximately HK$790.0 million for the year ended 31 December 2008. The increase in revenue was mainly attributed to the increase in sales volume of coal in the year of 2009 compared with the year 2008 resulting from the strong demand of coal from customers during the year of 2009. In order to meet the high demand from customers under the circumstances of restricted coal production volume due to occasional suspension of coal mines, the Group had to purchase more raw coal from suppliers hence the sales volume and revenue could be enhanced. For the year of 2009, the total sales volume was approximately 2.1mt, representing a 10.5% increase from approximately 1.9mt for the year of 2008. However, there was a slight reduction in the average selling price of the coal during the year of 2009. The average selling price (net of value added tax) of coal was approximately RMB358.0 per ton for the year of 2009, representing a decrease of 5.4% as compared with approximately RMB378.6 per ton for the last year. The reduction in the average selling price during the year was mainly due to the increase in purchase of raw coal from suppliers in order to meet the demand from customers, but the quality of coal purchased from suppliers was generally lower than (hence the selling price) the coal produced by the Group. Therefore, the overall average selling price of the Group's coal was reduced during the year notwithstanding the sales volume increased. Increase in purchase volume of coal from outsiders during the year (2009: approximately 0.5mt; 2008: approximately 0.1mt) was due to the restriction on further increase in production of coal by the Group itself resulting from the occasional suspension of certain coal mines during the year.

Chairman's Statement

Gross Profit

With the increase in sales volume and revenue during the year as explained above, gross profit achieved for the year of 2009 was approximately HK$504.9 million, which was increased by approximately 4.8% as compared with approximately HK$481.8 million for the year of 2008. The gross profit margin of the Group's coal mine business was however slightly reduced from approximately 61.0% in the last year to approximately 58.4% for the year of 2009. The slightly reduction in the gross profit margin was mainly due to the increase in the cost of sales resulting from the increase in purchase of coal from suppliers to meet the demand from customers. The purchase cost of coal from suppliers was undoubtedly higher than the production cost incurred by the Group itself, therefore the overall gross profit margin of the Group was lowered.

Operating Profit

The operating profit of the Group for the year of 2009 was approximately HK$356.7 million which was slightly lower than the operating profit for the year of 2008 amounted to approximately HK$360.7 million by 1.1%. The slightly reduction of operating profit notwithstanding the increase in revenue was mainly due to the reduction in gross profit margin as explained above.

Net Profit

The profit attributable to the owners of the Company for the year ended 31 December 2009 was approximately HK$46.4 million while it was approximately HK$283.5 million for the year ended 31 December 2008. The reduction in profit attributable to the owners was mainly due to there was a loss on the fair value changes on the compound derivative of the convertible bonds amounted to approximately HK$38.2 million for the year of 2009 compared with the gain on the fair value changes on the compound derivative of the convertible bonds amounted to approximately HK$134.7 million for the year of 2008.

PROSPECT

The operation of the Group's coal mines were suspended occasionally by the provincial government. As of the date of this report, two of our five coal mines are still in the stage of suspension. The management expects that the results of the Group for the year 2010 may be affected if these two coal mines cannot be resumed in the remaining year of 2010.

The new development of the policies regarding the coal mining industry in PRC is not favourable to the small to medium size coal mines. The government in Henan province recently issued a notification to direct and encourage the acquisition and consolidation of small to medium size coal mines within the province. The purposes of these policies are mainly to lower the accidental rate and for effective management of coal mines within the province. The government targets all the small to medium size coal mines within the province can be consolidated finally and only few large coal producers will remain.

Regarding of the above government's direction and polices, the Group has strived the opportunities to further develop and target to be one of the major remaining coal producers within the province. To overcome the challenge, the Company has set up a joint venture (the "JV") in Henan province with Henan Province Coalbed Gas Development and Utilisations Company Limited, which is a state-owned enterprise (the "Partner"), in November 2009. The formation of the JV will not only enable the Group to establish a leading position in the coal mining industry in the Henan province, but also will facilitate the Group's safety management on the coal mines.

In March 2010, the Company also signed a framework agreement with the Partner (i.e. being one of the six state-owned consolidators approved by the Henan province government) and The People's Government of Shilong District Pingdingshan City (平頂山市石龍區人民政府) in relation to the possible acquisition and consolidation of 22 coal mines in Henan province. The possible acquisition is in line with business strategy of the Group. It will enable the Group to capitalise on its existing business structure to expand its production volume and coal reserves. Moreover, the possible acquisition and consolidation is in line with the PRC government's recent policies to encourage consolidation, acquisition and restructuring of small to medium size coal mines. Upon the success of acquisition and consolidation of the 22 coal mines, the Group's future development will be further enhanced.

The formation of the JV and the possible acquisition of the 22 coal mines as stated above are critical for the Group to further develop and expand its business. It would help the Group to develop or maintain as one of the leading coal producers within the province.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2009, the net asset value of the Group was approximately HK$1,108 million (as at 31 December 2008: approximately HK$765.1 million) and the total cash and bank balance (included pledged bank deposit) was approximately HK$392.0 million (as at 31 December 2008: approximately HK$165.3 million). As at 31 December 2009, the Group had net current liabilities of approximately HK$69.0 million (as at 31 December 2008: approximately HK$170.0 million) and its current ratio increased from 0.7 times to 0.9 times compared with last year.

As at 31 December 2009, bank deposit amounted to approximately HK$233.0 million (as at 31 December 2008: approximately HK$85.2 million) was pledged and not available for the operation or repayment of debts of the Group. Cash and cash equivalents which are not pledged amounted to approximately HK$159.1 million (as at 31 December 2008: approximately HK$80.1 million). Included in cash and cash equivalents, amounted to approximately HK$145.5 million are retained in the Company's PRC subsidiaries and are not immediate funds for the usage of holding Company.

As at 31 December 2009, the Group's total bank loan was amounted to approximately HK$159.1 million (as at 31 December 2008: approximately HK$68.1 million). Bank loans of approximately HK$136.3 million (as at 31 December 2008: approximately HK$45.4 million) were denominated in Renminbi ("RMB") and were secured by certain accounts receivable, bear interest at fixed rate ranging from 4.37% to 5.83% per annum (2008: fixed rate of 7.26% per annum); bank loan amounted to approximately HK$22.7 million (as at 31 December 2008: approximately HK$22.7 million) was denominated in RMB and was unsecured, bear interest at fixed rate of 5.31% per annum (2008: fixed rate of 12.14% per annum). Bank loans amounted to approximately HK$79.5 million (as at 31 December 2008: approximately HK$45.4 million) were guaranteed by an independent third party.

As at 31 December 2009, the Group's bills payable amounted to approximately HK$284.0 million (as at 31 December 2008: approximately HK$153.3 million) were secured by the pledge of the Group's time deposits and of approximately HK$85.2 million (as at 31 December 2008: approximately HK$68.1 million) were also guaranteed by an independent third party.

As at 31 December 2009, the Group had two (as at 31 December 2008: three) outstanding CBs. The liability components of all the outstanding CBs stated in the balance sheet were amounted to approximately HK$336.8 million (as at 31 December 2008: approximately HK$292.3 million for the liability components and approximately HK$23.2 million for the fair value of compound derivative components of the CBs respectively).

As announced by the Company on 10 December 2009 and 23 December 2009, the 2% coupon convertible bonds with initial principal amount of US$25 million (equivalent to approximately HK$194.5 million) ("CB3") has already been fallen due. Up to the date of this report, CB3 still have not yet been repaid. Moreover, according to subscription agreement of the zero coupon convertible bonds with initial principal face value of HK$230,000,000 ("CB2"), Dragon Rich Resources Limited ("Dragon Rich") has the right to give notice to the Company to demand immediate repayment when the Company defaults in the repayment of any of its loan indebtedness. As at the date of this report, no notice was given by Dragon Rich to demand the repayment of outstanding principal of CB2.

The Group's gearing ratio, as a ratio of bank loans plus liability components of the CBs and divided by net assets, was 44.8% (as at 31 December 2008: 47.1%).

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.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group has a total of approximately 4,500 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 insurance 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, except the share options allotted to directors and employees according to the adjustment terms of the scheme upon approval of the bonus issue on 30 April 2009 and the open offer becoming unconditional on 1 December 2009, no share option has been granted to directors or employees. Details of the share options are set out in note 32 to the financial statements.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Bao Hongkai	38	Executive Director, Chairman	4	Joined the Group in 2006. He graduated from the Business School of National University of Singapore. He has over 10 years of experience in coal mining industry in the PRC. He is currently the chairman of the board of directors of a subsidiary of the Company in the PRC. He is responsible for the management and operation of coal mines of the Group.
Li Chun On	36	Executive Director	4	Joined the Group in 2006 and is currently the chief financial officer and company secretary of the Company. He graduated from the Hong Kong Polytechnic University. He has more than 12 years of experience in accounting and financial management. He is an associate member of the Hong Kong Institute of Certified Public Accountants, and a fellow member of The Association of Chartered Certified Accountants, United Kingdom.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Wu Jiahong	43	Executive Director	4	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	44	Executive Director	3	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
Chan Kin Sang	58	Independent Non-Executive Director	6	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 two other Hong Kong listed companies, namely, China Precious Metal Resources Holdings Company Limited and Goldmond Holdings Limited.
Choi Man Chau, Michael	53	Independent Non-Executive Director	4	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 two other listed companies in Hong Kong, namely, Oriental Watch Co. Ltd. and Hunan Nonferrous Metals Corp. Ltd.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
He Guangcai	65	Independent Non-Executive Director	0.5	He graduated from Shandong University. He is currently the deputy chairman of Research Association of the Party Construction of Henan Province. He was also previously acted as a member of the Standing Committee of the People's Congress of Henan Province and several committee members of Chinese government bodies. By having his connection with the Chinese government bodies, the relationship between the Company and the government bodies may be further enhanced.
Ng Wing Hang, Patrick	57	Independent Non-Executive Director	6	Joined the Group in 2004. He is a practising Certified Public Accountant in Hong Kong and is the managing director of Pan-China (H.K.) 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.

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 2009.

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 2009.

BOARD OF DIRECTORS

The Board currently comprises eight directors and its composition is set out as follows:

Executive Directors	Mr. Bao Hongkai (Chairman)
	Mr. Xu Lidi (Vice-Chairman)
	Mr. Wu Jiahong (Managing Director)
	Mr. Li Chun On (appointed on 18 August 2009)
Independent Non-Executive Directors ("INEDs")	Mr. Chan Kin Sang
	Mr. Choi Man Chau, Michael
	Mr. He Guangcai (appointed on 18 August 2009)
	Mr. Ng Wing Hang, Patrick

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 2009 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 2009 is set out below:

	Attendance/Number of Meetings			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Bao Hongkai	5/7	–	–	–
Mr. Xu Lidi	5/7	–	–	–
Mr. Wu Jiahong	7/7	–	1/1	1/1
Mr. Cheng Koon Cheung (Resigned on 26 April 2010)	7/7	–	–	–
Mr. Li Chun On	6/7	2/2	1/1	1/1
INEDs				
Mr. Chan Kin Sang	4/7	1/2	1/1	1/1
Mr. Choi Man Chau, Michael	3/7	2/2	1/1	1/1
Mr. He Guangcai	3/7	–	–	–
Mr. Ng Wing Hang, Patrick	4/7	2/2	1/1	1/1

CHAIRMAN AND CHIEF EXECUTIVE

The Group's Chairman is Mr. Bao Hongkai, and the 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. Also, he is in charge of the operation of coal mines of the Group. 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 Group 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 three of the 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 director 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 the year of 2009, the Remuneration Committee held one meeting. 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 2204, 22/F., Harbour Centre, 25 Harbour Road, 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 three of the 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 the year of 2009, 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 2204, 22/F., Harbour Centre, 25 Harbour Road, 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 the year of 2009, 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 2008 and for the year ended 31 December 2009, 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 2204, 22/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong with prior appointment.

AUDITORS' REMUNERATION

During the year of 2009, 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 2009 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 25 to 26.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. During the year of 2009, 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 Group'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 2009.

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 2009 and the statement of financial position of the Company and of the Group at that date are set out in the financial statements on pages 27 to 104.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

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

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 three of the 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 2009 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 2009 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 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, 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).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 89.2% of the total revenue for the year and sales to the largest customer included therein amounted to approximately 51.8%. Purchases of coal from the Group's five largest suppliers accounted for approximately 49.4% of the total cost of inventories sold for the year and purchases from the largest supplier included therein amounted to approximately 34.2%.

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

DIRECTORS

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

Executive Directors:
Mr. Bao Hongkai
Mr. Cheng Koon Cheung (Resigned on 26 April 2010)
Mr. Li Chun On
Mr. Wu Jiahong
Mr. Xu Lidi

Independent Non-Executive Directors:
Mr. Chan Kin Sang
Mr. Choi Man Chau, Michael
Mr. He Guangcai
Mr. Ng Wing Hang, Patrick

In accordance with clause 111 of the Company's Bye-laws, Mr. Chan Kin Sang, Mr. Li Chun On, Mr. He Guangcai and Mr. Ng Wing Hang, Patrick 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 10 to 13.

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

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

As at 31 December 2009, 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	460,735,713 *(Note 1)*	423,913,043 *(Note 1)*	41.77%
	Personal interest	6,750,000	6,081,750 *(Note 2)*	0.61%
Mr. Wu Jiahong ("Mr. Wu")	Personal interest	–	14,688,000 *(Note 2)*	0.69%
Mr. Xu Lidi ("Mr. Xu")	Personal interest	10,125,000	6,081,750 *(Note 2)*	0.77%
Mr. Li Chun On ("Mr. Li")	Personal interest	381,000	1,275,000 *(Note 2)*	0.08%

Notes:

(1) Such Shares were held through 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 year. Mr. Bao, Mr. Wu and Mr. Xu are the directors of Dragon Rich. Dragon Rich also holds CB2. As at 31 December 2009, the outstanding principal face value of CB2 held by Dragon Rich is HK$195,000,000. Upon full conversion of CB2 thereof at the adjusted conversion price of HK$0.46, a total of 423,913,043 shares will be issued to Dragon Rich.

(2) Each of Mr. Bao and Mr. Xu is interested as a grantee of share options to subscribe for 6,081,750 shares of the Company, Mr. Wu is interested as a grantee of share options to subscribe for 14,688,000 shares of the Company and Mr. Li is interested as a grantee of share options to subscribe for 1,275,000 shares of the Company under the share option scheme as disclosed in note 32 to the financial statements.

(b) Long positions in the shares of associated 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 (Henan Jinfeng Coal Industrial Group Company Limited) ("Jinfeng")	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 2009.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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 2009, 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[1]	Beneficial owner	460,735,713	21.76%
Hopeview Consultants Limited[2]	Beneficial owner	202,500,000	9.56%
Liu Changsong[2]	Interests in controlled corporation	202,500,000	9.56%

(b) Long positions in underlying shares – Derivatives

Name of Shareholders	Capacity	Number of underlying shares	Approximate percentage of shareholding
Dragon Rich[1]	Beneficial owner	423,913,043	20.01%

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.

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 profit or loss for the year are set out in notes 3.20 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 2009.

CONNECTED TRANSACTIONS

Details of the connected transactions are included in note 37 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
26 April 2010

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 27 to 104, which comprise the company and consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

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 2009 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 2009, the Group and the Company had net current liabilities of approximately HK$69,014,000 and HK$331,108,000 respectively. In addition, convertible bonds issued by the Company with outstanding principal amount of US$16,000,000 (equivalent to approximately HK$124,480,000) had been requested by the bondholders to redeem on 10 December 2009, which was not settled as at 31 December 2009. These conditions together with those set out in note 3.1 to the financial statements 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
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

26 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	5	**863,894**	789,960
Cost of sales		**(358,962)**	(308,116)
Gross profit		**504,932**	481,844
Other income	5	**4,858**	14,107
Selling expenses		**(8,633)**	(6,412)
Administrative expenses		**(112,364)**	(109,833)
Other operating expenses		**(32,092)**	(18,964)
Operating profit		**356,701**	360,742
Change in fair value of compound derivative financial instruments	28	**(38,187)**	134,693
Finance costs	7	**(143,874)**	(74,567)
Share of loss of jointly controlled entity	21	**(124)**	–
Profit before income tax	8	**174,516**	420,868
Income tax expense	9	**(100,062)**	(108,204)
Profit for the year		**74,454**	312,664
Attributable to:			
Owners of the Company	10	**46,420**	283,532
Minority interest		**28,034**	29,132
Profit for the year		**74,454**	312,664
Earnings per share for profit attributable to the owners of the Company during the year	11		(Restated)
– Basic (HK cents)		**2.570**	17.649
– Diluted (HK cents)		**2.561**	8.709

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**74,454**	312,664
Other comprehensive income for the year		
Exchange gain on translation of financial statements of foreign operations	**860**	33,234
Total comprehensive income for the year	**75,314**	345,898
Total comprehensive income attributable to:		
Owners of the Company	**47,205**	313,944
Minority interest	**28,109**	31,954
	75,314	345,898

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**250,844**	205,737
Prepaid lease payments	16	**970**	1,255
Goodwill	18	**224,207**	239,955
Mining rights	19	**623,067**	640,941
Other intangible assets	20	**38**	118
Interest in jointly controlled entity	21	**90,958**	–
		1,190,084	1,088,006
Current assets			
Inventories	22	**33,707**	25,104
Accounts receivable	23	**257,970**	60,859
Prepayments, deposits and other receivables		**140,504**	160,883
Pledged bank deposits	24(a)	**232,967**	85,170
Cash and cash equivalents	24(b)	**159,067**	80,131
		824,215	412,147
Current liabilities			
Accounts and bills payables	25	**303,985**	168,485
Other payables and accruals		**66,134**	38,605
Provision for reclamation obligations	26	**14,106**	69,901
Provision for tax		**13,107**	45,809
Bank loans	27	**159,058**	68,130
Compound derivative financial instruments	28	**–**	4,788
Convertible bonds	28	**336,839**	186,454
		893,229	582,172
Net current liabilities		**(69,014)**	(170,025)
Total assets less current liabilities		**1,121,070**	917,981
Non-current liabilities			
Other payables	29	**–**	28,561
Compound derivative financial instruments	28	**–**	18,444
Convertible bonds	28	**–**	105,884
Deferred tax liabilities	30	**13,289**	–
		13,289	152,889
Net assets		**1,107,781**	765,092

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
EQUITY			
Share capital	*31*	**211,813**	66,959
Reserves	*33(a)*	**801,179**	631,453
Equity attributable to the owners of the Company		**1,012,992**	698,412
Minority interest		**94,789**	66,680
Total equity		**1,107,781**	765,092

Wu Jiahong
Director

Xu Lidi
Director

Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	**668,904**	575,464
Current assets			
Prepayments, deposits and other receivables		**1,341**	246
Cash and cash equivalents		**9,156**	686
		10,497	932
Current liabilities			
Other payables and accruals		**4,766**	4,075
Compound derivative financial instruments	28	**–**	4,788
Convertible bonds	28	**336,839**	186,454
		341,605	195,317
Net current liabilities		**(331,108)**	(194,385)
Total assets less net current liabilities		**337,796**	381,079
Non-current liabilities			
Compound derivative financial instruments	28	**–**	18,444
Convertible bonds	28	**–**	105,884
		–	124,328
Net assets		**337,796**	256,751
EQUITY			
Share capital	31	**211,813**	66,959
Reserves	33(b)	**125,983**	189,792
Total equity		**337,796**	256,751

Wu Jiahong
Director

Xu Lidi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to the owners of the Company												Minority interest	Total
	Share capital	Share premium* (Note 33(a))	Equity component of convertible bonds*	Share option reserve*	Capital redemption reserve* (Note 33(a))	Other reserve* (Note 33(a))	Contributed surplus* (Note 33(a))	Exchange fluctuation reserve*	Capital reserve* (Note 33(a))	Retained profits*	Statutory reserve fund* (Note 33(a))	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 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
Capitalisation of retained profits in a PRC subsidiary	–	–	–	–	–	–	–	–	27,442	(27,442)	–	–	–	–
Issue of shares on conversion of convertible bonds *(note 31(a))*	273	1,651	–	–	–	–	–	–	–	–	–	1,924	–	1,924
Employee share based compensation	–	–	–	19,056	–	–	–	–	–	–	–	19,056	–	19,056
Transactions with owners	273	1,651	–	19,056	–	–	–	–	27,442	(27,442)	–	20,980	–	20,980
Transfer to statutory reserves	–	–	–	–	–	14,737	–	–	–	(30,816)	16,079	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	283,532	–	283,532	29,132	312,664
Other comprehensive income for the year – Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	30,412	–	–	–	30,412	2,822	33,234
Total comprehensive income for the year	–	–	–	–	–	–	–	30,412	–	283,532	–	313,944	31,954	345,898
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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to the owners of the Company												Minority interest	Total
	Share capital HK$'000	Share premium* (Note 33(a)) HK$'000	Equity component of convertible bonds* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* (Note 33(a)) HK$'000	Other reserve* (Note 33(a)) HK$'000	Contributed surplus* (Note 33(a)) HK$'000	Exchange fluctuation reserve* HK$'000	Capital reserve* (Note 33(a)) HK$'000	Retained profits* HK$'000	Statutory reserve fund* (Note 33(a)) HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2009	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
Share option forfeited	–	–	–	(71)	–	–	–	–	–	71	–	–	–	–
Issue of ordinary shares on conversion of convertible bonds *(note 31(a))*	13,671	110,414	(4,582)	–	–	–	–	–	–	–	–	119,503	–	119,503
Exercise of share options *(note 31(b))*	1,440	19,775	–	(10,220)	–	–	–	–	–	–	–	10,995	–	10,995
Issue of ordinary shares under bonus issue *(note 31(c))*	59,139	–	–	–	–	–	(59,139)	–	–	–	–	–	–	–
Issue of ordinary shares under open offer *(note 31(d))*	70,604	70,604	–	–	–	–	–	–	–	–	–	141,208	–	141,208
Shares issue expenses *(note 31(d))*	–	(4,331)	–	–	–	–	–	–	–	–	–	(4,331)	–	(4,331)
Transactions with owners	144,854	196,462	(4,582)	(10,291)	–	–	(59,139)	–	–	71	–	267,375	–	267,375
Transfer to statutory reserves	–	–	–	–	–	14,957	–	–	–	(39,964)	25,007	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	46,420	–	46,420	28,034	74,454
Other comprehensive income for the year – Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	785	–	–	–	785	75	860
Total comprehensive income for the year	–	–	–	–	–	–	–	785	–	46,420	–	47,205	28,109	75,314
At 31 December 2009	**211,813**	**225,742**	**–**	**10,341**	**50**	**55,473**	**8,282**	**47,439**	**27,442**	**367,301**	**59,109**	**1,012,992**	**94,789**	**1,107,781**

* The aggregate amount of these balances of approximately HK$801.2 million (2008: approximately HK$631.5 million) represents the reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit before income tax		**174,516**	420,868
Adjustments for:			
Change in fair value of compound derivative financial instruments	*28*	**38,187**	(134,693)
Share of loss of jointly controlled entity	*21*	**124**	–
Interest expense	*7*	**84,345**	74,567
Amortisation of mining rights	*8*	**18,146**	19,945
Amortisation of prepaid lease payments	*8*	**285**	138
Amortisation of intangible assets	*8*	**103**	141
Impairment loss on goodwill	*8*	**15,748**	11,620
Loss on redemption of convertible bonds	*7, 28*	**19,683**	–
Loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand	*7, 28*	**39,846**	–
Interest income	*5*	**(2,689)**	(902)
Depreciation	*8*	**21,036**	15,525
(Gain)/Loss on disposals of property, plant and equipment	*8*	**(204)**	5,263
Bad debts recovery	*5*	**–**	(8,834)
Equity–settled share option expenses	*12*	**–**	19,056
Operating profit before working capital changes		**409,126**	422,694
Increase in inventories		**(8,590)**	(4,524)
(Increase)/Decrease in accounts receivable		**(197,081)**	29,248
Decrease/(Increase) in prepayments, deposits and other receivables		**20,459**	(62,788)
Increase in accounts and bills payables		**135,416**	152,899
Decrease in other payables and accruals		**(1,051)**	(273,740)
(Decrease)/Increase in provision for reclamation obligations		**(55,830)**	21,220
Cash generated from operations		**302,449**	285,009
Interest received		**2,689**	902
Interest paid		**(9,289)**	(11,631)
Income tax paid		**(119,332)**	(117,873)
Net cash generated from operating activities		**176,517**	156,407

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Purchases of mining rights		–	(18,879)
Purchases of other intangible assets	20	(23)	(32)
Purchases of property, plant and equipment	15	(66,587)	(74,277)
Proceeds from disposals of property, plant and equipment		801	710
Investment in jointly controlled entity		(91,000)	–
Increase in pledged bank deposits		(147,754)	(85,170)
Net cash used in investing activities		(304,563)	(177,648)
Cash flows from financing activities			
New bank loans		313,032	179,645
Repayments of bank loans		(222,258)	(200,357)
Redemption payment of convertible bonds		(32,000)	–
Proceeds from issue of ordinary shares under open offer		141,208	–
Share issue expenses		(4,331)	–
Proceeds from exercise of share options		10,995	–
Net cash generated from/(used in) financing activities		206,646	(20,712)
Net increase/(decrease) in cash and cash equivalents		78,600	(41,953)
Cash and cash equivalents at 1 January		80,131	115,180
Effect of foreign exchange rate changes		336	6,904
Cash and cash equivalents at 31 December		159,067	80,131

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 principal activities and other particulars of its subsidiaries are set out in note 17 to the financial statements.

The financial statements on pages 27 to 104 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 2009 were approved for issue by the board of directors on 26 April 2010.

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 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various	Annual improvements to HKFRSs 2008

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

Other than as noted below, the adoption of 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.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

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

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

Notes to the Financial Statements

For the year ended 31 December 2009

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

Annual improvements 2009

The HKICPA has issued *Improvements to Hong Kong Financial Reporting Standards 2009*. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 *Leases* to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial positions in the first year of application.

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 adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in Note 2.

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 described in note 28 to the financial statements, on 10 December 2007, the Company issued a 2% coupon convertible bonds with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000) with maturity date on 10 December 2010 ("CB3"). The CB3 was secured by the Company's entire interest in Clear Interest Limited and Zhong Yue Energy Development (Shenzhen) Company Limited (the "Collaterals"). Both the Company and the holders of the CB3 have redemption options. On 10 December 2009, the holders of the CB3 exercised their rights to require the Company to fully redeem the remaining CB3 with outstanding principal amount of US$16,000,000 (equivalent to approximately HK$124,480,000) at a premium of 12.7% on the principal amount. The premium arising on redemption of CB3 was approximately US$2,038,000 (equivalent to approximately HK$15,858,000). The Company was in default of payment and the related default interest was approximately US$33,000 (equivalent to approximately HK$256,000) calculated at 3% per annum for the period from 10 December 2009 to 31 December 2009. As at 31 December 2009, the total amount of CB3 fell due (including outstanding principal of US$16,000,000 (equivalent to approximately HK$124,480,000), redemption premium of US$2,038,000 (equivalent to approximately HK$15,858,000), accrued interest of US$160,000 (equivalent to approximately HK$1,245,000) and default interest of US$33,000 (equivalent to approximately HK$256,000)) was approximately US$18,231,000 (equivalent to approximately HK$141,839,000) (the "CB3 Outstanding Amount") which shall be settled in US dollars ("US$") only and in Hong Kong. Up to the approval date of these financial statements, the CB3 Outstanding Amount remained unsettled. On 1 April 2010, the Company received a letter from the solicitors of MCC International (Group) Company Limited ("MCC"), bondholder of CB3. According to the letter, MCC agreed not to instruct the trustee of the CB3 to serve an enforcement notice to the Company and to enforce the right to sell or dispose of the Collaterals before 31 May 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

As described in note 28 to the financial statements, on 16 November 2007, the Company issued a zero coupon convertible bonds ("CB2") to Dragon Rich Resources Limited ("Dragon Rich"), a substantial shareholder and connected party of the Company, with a maturity date on 16 November 2010. According to the subscription agreement of CB2, Dragon Rich has the right to demand immediate repayment when the Company defaults in the repayment of any of its loan indebtedness. As at 31 December 2009, the outstanding principal amount of CB2 was HK$195,000,000. Up to the approval date of these financial statements, no demand for repayment was received from Dragon Rich and the CB2 was remained unsettled.

In addition to the above, as at 31 December 2009, the Group had net current liabilities of approximately HK$69,014,000 and the Company had net current liabilities of approximately HK$331,108,000.

In presenting the consolidated financial statements for the year ended 31 December 2009, the directors of the Company have given consideration to the future financial positions of the Group and the Company in light of the financial conditions as described in the preceding paragraphs. The directors of the Company 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 2009 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 of the Company 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 followings:

(a) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through fund raising and debt re-financing exercises. On 12 March 2010, the Company and Victory Investment China Group Limited (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement") in respect of the proposed issue of zero coupon convertible notes (the "Convertible Notes") in the maximum principal amount of HK$1,200 million, of which approximately HK$140 million will be used for the repayment of the CB3. The issuance of the Convertible Notes is conditional upon (i) the satisfaction of the due diligence exercise to be carried out by the Subscriber; (ii) the approval from the shareholders at a general meeting in accordance with the requirements under the Listing Rules and the Listing Committee of the Stock Exchange granting or agreeing to grant the approval to the transaction contemplated under the Subscription Agreement; and (iii) the approval from the shareholders at a special general meeting to increase the authorised share capital of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(b) The directors of the Company have negotiated with the holder of CB3 that the enforcement date for the disposals of the Collaterals has been extended to not earlier than 31 May 2010.

(c) The directors of the Company have assessed that if the trustee of CB3 serves an enforcement notice to the Company to enforce the right to sell or dispose of the Collaterals after 31 May 2010, the sale proceeds from the Collaterals would be more than the CB3 Outstanding Amount. The trustee has to refund any remaining sale proceeds after settlement of the CB3 Outstanding Amount to the Company for its operations.

In addition to the above measures, the directors of the Company also considered the following current and forecasted cash positions of the Group:

(a) As at 31 December 2009, the Group had cash and cash equivalents amounted to approximately HK$159,067,000.

(b) The directors of the Company have prepared a cash flow forecast for the next twelve months and are of the opinion that the Group and the Company would generate sufficient cash inflows from its operations.

On the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, the directors of the Company 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 2009. Accordingly, the directors of the Company are of the opinion that it is appropriate to present the consolidated financial statements for the year ended 31 December 2009 on a going concern basis.

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 as current assets. 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 (see 3.3 below) made up to 31 December each year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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

Minority interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated statement of comprehensive income 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.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control 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.

In consolidated financial statements, acquisition of subsidiaries is accounted for by applying the purchase method. This involves the estimation of 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 statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, 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 subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Jointly controlled entities

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

In consolidated financial statements, an investment in a jointly controlled entity is initially recognised at cost and subsequently accounted for using equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition 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 investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the jointly controlled entity's profit or loss in the period in which the investment is acquired.

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

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Where unrealised losses on assets sales between the Group and its jointly controlled entities are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the jointly controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the jointly controlled entity's accounting policies to those of the Group when the jointly controlled entity's financial statements are used by the Group in applying the equity method.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Jointly controlled entities (Continued)

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its jointly controlled entity. At each reporting date, the Group determines whether there is any objective evidence that the investment in jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the jointly controlled entity and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entity, including cash flows arising from the operations of the jointly controlled entity and the proceeds on ultimate disposal of the investment.

3.5 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 reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 reporting 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 recognised in other comprehensive come and accumulated 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 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, ancillary materials and consumable tools is recognised upon transfer of significant risks and rewards of ownership to the customers. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

- Repair servicing income is recognised when service is rendered, the income can be reliably estimated and it is probable that the revenue will be received.

3.7 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.8 Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.13).

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 jointly controlled entity is recognised immediately in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 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 3.13. Amortisation commences when the intangible assets are available for use.

3.10 Prepaid lease payments

Prepaid lease payments are up-front payments to acquire the 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.

3.11 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.

3.12 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment, other than construction in progress ("CIP"), 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)

3.12 Property, plant and equipment (Continued)

The assets' estimated residual value and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 profit or loss.

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 profit or loss during the financial period in which they are incurred.

CIP, 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 CIP. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.13 Impairment non-financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Impairment non-financial 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.

3.14 Leases

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

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

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payment made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

3.15 Financial assets

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

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each reporting 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)

3.15 Financial assets (Continued)

Loans and receivables

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

Impairment of financial assets

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

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

3.16 Inventories

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

3.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting 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 profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Accounting for income taxes (Continued)

Deferred income tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Accounting for income taxes (Continued)

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.18 Cash and cash equivalents

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

3.19 Share capital

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

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

3.20 Employee benefits

(i) Retirement benefit obligations

The Group contributes to a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance which is available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss 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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Employee benefits (Continued)

(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 profit or loss 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 profits.

3.21 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 profit or loss.

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 profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Financial liabilities (Continued)

Borrowings

Borrowings, which include bank loans, 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 profit or loss 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 reporting 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Financial liabilities (Continued)

Convertible bonds (Continued)

(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 statement of financial position.

3.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Provisions and contingent liabilities (Continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs.

3.24 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 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.

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.

4.1 Critical accounting estimates and assumptions

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 3.8. 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(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.

(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 reporting 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(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 reassesses the impairment of receivables at the reporting 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 reassesses the estimations at the reporting 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) Provision for reclamation obligations

The provision is reviewed regularly to verify that it properly reflects the remaining obligation arising from current and past mining activities. Provision for land restoration and safety costs are determined by management based on their best estimates of the current and future costs, latest government policies and past experiences.

4.2 Critical judgement in applying the entity's accounting policies

(i) Going concern assumption

The assessment of the Group's financial position as at 31 December 2009 and the going concern basis of preparation is detailed in note 3.1 to these financial statements.

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 reassesses the going concern assumption with reference to the above policies.

Notes to the Financial Statements

For the year ended 31 December 2009

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgement in applying the entity's accounting policies (Continued)

(ii) Deferred tax liability

The Group is in the progress of application for claiming the fair value of its mining rights of Xiangyang Coal Industry Company Limited as its qualifying assets from the relevant PRC local tax authorities to benefit from the tax deduction allowance. As the result of this application is not yet known, significant judgement is required in determining the likely outcome of the application and the amount of deferred tax liabilities. The Group recognises deferred tax liabilities based on estimates of temporary differences at the reporting date between the carrying amounts of assets in the consolidated financial statements and their respective tax bases. If the final outcome of this matter is different from the estimation, it will impact the income tax and deferred tax provision in the periods in which such determination is concluded.

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:

	2009	2008
	HK$'000	*HK$'000*
Revenue/Turnover		
Sale of coal	**863,894**	789,960
Other income		
Interest income	**2,689**	902
Bad debts recovery	**–**	8,834
Sale of ancillary materials	**311**	3,536
Sale of consumable tools	**887**	–
Repair servicing income	**458**	–
Gain on disposals of property, plant and equipment	**204**	–
Others	**309**	835
	4,858	14,107

6. SEGMENT INFORMATION

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group's executive directors in order to allocate resources and assess performance of the segment. For the years presented, executive directors have determined that the Group has only one operating segment as the Group is only engaged in the business of production and sale of coal which is the basis to allocate resources and assess performance.

The Group's revenue from external customers are derived from the PRC and its non-current assets (other than deferred tax assets) are located in the PRC. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities. The Group has the majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 *Operating Segments*.

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of asset.

During 2009, HK$732.8 million or 84.8% (2008: HK$727.7 million or 92.1%) of the Group's revenues depended on three (2008: two) single customers in the sales of coal.

At the reporting date 93.9% (2008: 96.8%) of the Group's accounts receivable were due from these customers.

7. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest charge on bank loans		
– wholly repayable within five years	**7,272**	7,541
Effective interest expense on convertible bonds		
repayable within five years	**76,817**	67,026
Default interest expense on convertible bonds		
repayable within five years	**256**	–
Interest expenses on financial liabilities stated at amortised cost	**84,345**	74,567
Loss on redemption of convertible bonds	**19,683**	–
Loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand	**39,846**	–
	143,874	74,567

8. PROFIT BEFORE INCOME TAX

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

	2009	2008
	HK$'000	*HK$'000*
Cost of inventories sold	**342,497**	293,884
Auditors' remuneration	**1,111**	1,092
Depreciation*	**21,036**	15,525
Operating lease charges on land, buildings and office equipment	**1,956**	1,766
Amortisation of prepaid lease payments	**285**	138
Amortisation of mining rights	**18,146**	19,945
Amortisation of intangible assets	**103**	141
Employee benefit expense (including directors' remuneration and retirement benefit scheme contributions) *(note 12)*	**122,910**	128,312
(Gain)/Loss on disposals of property, plant and equipment	**(204)**	5,263
Impairment loss on goodwill	**15,748**	11,620

* Depreciation of approximately HK$12.5 million (2008: approximately HK$9.3 million) has been included in cost of sales and approximately HK$8.5 million (2008: approximately HK$6.2 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 (2008: Nil).

Corporate income tax arising from operations in the PRC is calculated at the statutory income tax rate of 25% (2008: 25%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations in the PRC.

	2009	2008
	HK$'000	*HK$'000*
Current tax – PRC income tax		
– Current year	**79,805**	108,204
– Under-provision in respect of prior year	**6,968**	–
Deferred tax (note 30)		
– Current year	**13,289**	–
	100,062	108,204

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

	2009	2008
	HK$'000	*HK$'000*
Profit before income tax	**174,516**	420,868
Tax on profit before income tax, calculated at the rates applicable to profit in the tax jurisdictions	**60,784**	103,112
Tax effect of non-taxable income	**(9,991)**	(22,593)
Tax effect of non-deductible expenses	**42,380**	27,553
Tax losses not recognised	**–**	132
Tax effect of prior year's unrecognised tax losses utilised during the year	**(79)**	–
Under-provision in respect of prior year	**6,968**	–
Income tax expense	**100,062**	108,204

10. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of approximately HK$46.4 million (2008: approximately HK$283.5 million), a loss of approximately HK$186.3 million (2008: a profit of approximately HK$36.7 million) has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

During the year ended 31 December, 2009, the Company made a bonus issue of ordinary shares to its shareholders on the basis of four bonus shares for every five existing shares of the Company recorded on the member register of the Company on 30 April 2009 (the "Bonus Issue"). In addition, the Company also raised funds by way of open offer (the "Open Offer") of offer shares at a subscription price of HK$0.2 per share on the basis of one offer share for every two existing shares of the Company. The comparative figures of basic and diluted earnings per share have been restated for the effects of the Bonus Issue and Open Offer.

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

	2009	2008
	HK$'000	*HK$'000*
Profit		
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**46,420**	283,532
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**–**	67,026
Change in fair value of compound derivative financial instruments	**–**	(134,693)
Profit for the year attributable to the owners of the Company for the purpose of diluted earnings per share computation	**46,420**	215,865

11. EARNINGS PER SHARE (Continued)

	2009	2008
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,806,146**	1,606,509
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**6,177**	17,053
Convertible bonds	**–**	854,958
Weighted average number of ordinary shares for the purpose of diluted earnings per share computation	**1,812,323**	2,478,520

The calculation of basic earnings per share attributable to the owners of the Company for the year ended 31 December 2009 is based on the profit attributable to the owners of the Company of approximately HK$46.4 million (2008: approximately HK$283.5 million) and on the weighted average of 1,806,146,000 (2008: 1,606,509,000, as restated) ordinary shares outstanding during the year.

In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2009, the potential issue of shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and is not taken into account as they have an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2009 is based on the profit attributable to the owners of the Company of approximately HK$46.4 million and on the weighted average of 1,812,323,000 ordinary shares outstanding during the year ended 31 December 2009, being the weighted average number of 1,806,146,000 ordinary shares used in basic earnings per share calculation and adjusted for the effect of the share options of 6,177,000 shares.

The calculation of diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2008 is based on the profit attributable to the owners of the Company of approximately HK$215.9 million and on the weighted average of 2,478,520,000 (as restated) ordinary shares outstanding during the year.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2009	2008
	HK$'000	*HK$'000*
Wages, salaries, allowance and other benefits in kind	**122,725**	109,139
Share options granted to directors and employees	**–**	19,056
Retirement benefit scheme contribution – defined contribution plans	**185**	117
	122,910	128,312

13. 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*
2009						
Executive Directors						
Bao Hongkai ("Mr. Bao")	–	2,491	–	–	–	2,491
Wu Jiahong ("Mr. Wu")	–	1,903	–	–	12	1,915
Cheng Koon Cheung ("Mr. Cheng")*	240	–	–	–	–	240
Xu Lidi ("Mr. Xu")	–	1,574	–	–	–	1,574
Li Chun On ("Mr. Li")**	–	290	–	–	4	294
Independent Non-Executive Directors						
Chan Kin Sang	150	–	–	–	–	150
Ng Wing Hang, Patrick	150	–	–	–	–	150
Choi Man Chau, Michael	150	–	–	–	–	150
He Guangcai**	40	–	–	–	–	40
	730	6,258	–	–	16	7,004

* resigned on 26 April 2010

** newly appointed on 18 August 2009

13. 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
2008						
Executive Directors						
Mr. Bao	–	1,310	1,881	2,511	10	5,712
Mr. Wu	–	1,724	1,881	11	12	3,628
Mr. Cheng	240	–	–	–	–	240
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

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 (2008: Nil).

During the year ended 31 December 2009, no share options were granted to the directors in respect of their services to the Group. 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 32 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 3.20(ii).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included three (2008: three) directors whose emoluments are reflected in the analysis presented in note 13. The emoluments payable to the remaining two (2008: two) individuals during the year are as follows:

	2009	2008
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**939**	1,017
Share based payment	**–**	2,661
Retirement benefit scheme contributions	**8**	12
	947	3,690

The emoluments fell within the following bands:

	2009	2008
Emolument bands		
Nil – HK$1,000,000	**2**	–
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 (2008: Nil).

During the year ended 31 December 2009, no share options (2008: 3,750,000 share options) have been granted to the remaining two (2008: two) 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 3.20 (ii).

15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Plant and machineries	Mining related machinery and equipment	Furniture, fixtures, equipment and leasehold improvement	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008							
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
Year ended 31 December 2009							
Opening net book value	**110,774**	**11,980**	**49,960**	**6,457**	**15,548**	**11,018**	**205,737**
Exchange difference	**86**	**5**	**43**	**2**	**6**	**11**	**153**
Additions	**28,279**	**1,624**	**16,805**	**1,515**	**3,154**	**15,210**	**66,587**
Transfer	**6,340**	**221**	**4,433**	**–**	**–**	**(10,994)**	**–**
Disposals	**–**	**(81)**	**(262)**	**–**	**(254)**	**–**	**(597)**
Depreciation	**(7,221)**	**(2,017)**	**(6,573)**	**(1,169)**	**(4,056)**	**–**	**(21,036)**
Closing net book value	**138,258**	**11,732**	**64,406**	**6,805**	**14,398**	**15,245**	**250,844**
At 31 December 2009							
Cost	**162,647**	**17,339**	**80,436**	**10,248**	**23,812**	**15,245**	**309,727**
Accumulated depreciation	**(24,389)**	**(5,607)**	**(16,030)**	**(3,443)**	**(9,414)**	**–**	**(58,883)**
Net book value	**138,258**	**11,732**	**64,406**	**6,805**	**14,398**	**15,245**	**250,844**

16. PREPAID LEASE PAYMENTS – GROUP

	2009 HK$'000	2008 HK$'000
Opening net book amount	**1,255**	1,310
Exchange difference	**–**	83
Amortisation charge for the year	**(285)**	(138)
Closing net book amount	**970**	1,255

All prepaid lease payments at 31 December 2009 and 2008 for leasehold interests in land are held in the PRC on medium-term leases.

At 31 December 2009, 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 ended 31 December 2008 and 2009.

17. INTERESTS IN SUBSIDIARIES – COMPANY

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**397,801**	397,801
Due from subsidiaries	**271,103**	177,663
	668,904	575,464

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

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.

17. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Particulars of the principal subsidiaries of the Company at 31 December 2009 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
Dynamic Coal Company Limited	Hong Kong	1 share of HK$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 ("Dynamic Shenzhen")#	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 ("Jinfeng")#	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 ("Xingyun")#	PRC	RMB60,000,000	90	Production and sale of coal
Xiangyang Coal Industry Company Limited ("Xiangyang") #	PRC	RMB50,000,000	90	Production and sale of coal
Defeng Jinfeng Mining Equipment Company Limited #	PRC	RMB1,000,000	90	Trading of mining equipment and consumable tools

English names for identification purpose only.

Notes to the Financial Statements

For the year ended 31 December 2009

18. GOODWILL – GROUP

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

	2009	2008
	HK$'000	*HK$'000*
Carrying amount at 1 January	**239,955**	251,575
Impairment loss	**(15,748)**	(11,620)
Carrying amount at 31 December	**224,207**	239,955
Closing carrying amount		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(44,539)**	(28,791)
Net carrying amount at 31 December	**224,207**	239,955

Goodwill at 31 December 2008 and 2009 arose from the acquisitions of CIL and represented the future economic benefits from the production and sales of coal.

At the time the Group acquired its interest in CIL, the mining license held by CIL only had around a month to its expiry. The grant of a longer term mining license for the underlying mines of CIL had not been granted at the acquisition date. The mining license with around one month expiry held by CIL would not in any way guarantee that CIL would be able to obtain a longer term mining license. Due to uncertainty over the granting of a longer term mining license from relevant local government authorities at the time, no reliable estimation of the fair value of a longer term mining license was available at the acquisition date. The purchase consideration by the Group over the fair value of net assets of CIL acquired (not including a longer term mining license) was recognised as goodwill accordingly. Accordingly, any value attributable to the mining potential in CIL was subsumed into the goodwill arising from the acquisition of CIL. In 2008, the government approved to extend the mining right for 7-14.5 years. Effectively substantial amount of the goodwill balance represents the value of mining right.

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. In determining the value of the Group's mining assets/goodwill, the directors have taken account of the estimated coal reserves of the mines after deducting the cumulative amounts of coal already extracted and sold. Accordingly, as the Group depletes its coal reserves, the value of its mining assets/goodwill will also decrease. The write-down of goodwill carrying amount is therefore of similar financial statements effects of amortisation of mining rights as if a separate fair value had been recognised on a longer term mining license on the acquisition of CIL. The related impairment loss of approximately HK$15.7 million (2008: HK$11.6 million) was included under "Other operating expenses" in the consolidated income statement.

18. GOODWILL – GROUP (Continued)

Management's key assumptions were used in the value-in-use calculation of the cash-generating units for the year ended 31 December 2009. 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:

	2009	2008
Growth rate	**8.8% per annum**	8.0% per annum
Discount rate	**9.1% per annum**	9.6% per annum

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

19. MINING RIGHTS – GROUP

	2009 *HK$'000*	2008 *HK$'000*
At 1 January		
Gross carrying amount	**673,061**	615,125
Accumulated amortisation	**(32,120)**	(11,256)
Net carrying amount	**640,941**	603,869
Net carrying amount at 1 January	**640,941**	603,869
Additions	**–**	18,879
Amortisation	**(18,146)**	(19,945)
Exchange difference	**272**	38,138
Net carrying amount at 31 December	**623,067**	640,941
At 31 December		
Gross carrying amount	**673,372**	673,061
Accumulated amortisation	**(50,305)**	(32,120)
Net carrying amount	**623,067**	640,941

At 31 December 2009, the remaining useful lives of mining rights held by the Group ranged from 1.5 to 13.0 years (2008: 2.5 to 14.0 years).

20. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence	
	2009	2008
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**368**	309
Accumulated amortisation	**(250)**	(94)
Net carrying amount	**118**	215
Net carrying amount at 1 January	**118**	215
Additions	**23**	32
Amortisation	**(103)**	(141)
Exchange difference	**–**	12
Net carrying amount at 31 December	**38**	118
At 31 December		
Gross carrying amount	**391**	368
Accumulated amortisation	**(353)**	(250)
Net carrying amount	**38**	118

21. INTEREST IN JOINTLY CONTROLLED ENTITY – GROUP

	2009	2008
	HK$'000	*HK$'000*
Share of net assets	**90,958**	–

21. INTEREST IN JOINTLY CONTROLLED ENTITY – GROUP (Continued)

Particulars of the jointly controlled entity of the Group at 31 December were as follows:

Name of jointly controlled entity	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Group	Principal activities
Indirectly held				
Henan Yulong Energy Development Company Limited	PRC	RMB200,000,000	40%	Coal mine production safety and gas management

The following illustrates the summarised financial information of the Group's jointly controlled entity extracted from its management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group.

The Group's share of the jointly controlled entity assets, liabilities, income and expenses are as follows:

	2009 *HK$'000*	2008 *HK$'000*
Non-current assets	**132**	–
Current assets	**90,835**	–
Current liabilities	**(9)**	–
	90,958	–
Income	**–**	–
Expenses	**(124)**	–
Loss after income tax expenses attributable to the Group	**(124)**	–

The Group has not incurred any contingent liabilities or other commitments relating to its jointly controlled entity.

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For the year ended 31 December 2009

22. INVENTORIES – GROUP

	2009	2008
	HK$'000	*HK$'000*
Coal	**20,946**	8,205
Spare part and consumables	**12,761**	16,899
	33,707	25,104

23. ACCOUNTS RECEIVABLE – GROUP

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

	2009	2008
	HK$'000	*HK$'000*
0 – 90 days	**240,136**	49,443
91 – 180 days	**17,834**	11,416
	257,970	60,859

At 31 December 2009, accounts receivable of approximately HK$180.0 million (2008: approximately HK$44.7 million) were pledged to secure bank loans of the Group (note 27).

Ageing analysis of the Group's accounts receivable that were not impaired, based on due date is as follows:

	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**236,183**	49,303
Past due of less than 3 months but not impaired	**21,787**	11,556
	257,970	60,859

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

23. ACCOUNTS RECEIVABLE – GROUP (Continued)

Accounts receivable 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 accounts receivable past due but not impaired.

24. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS – GROUP

(a) Pledged bank deposits

The Group's bills payables amounting to approximately HK$284.0 million (equivalent to RMB250.0 million) (2008: approximately HK$153.3 million (equivalent to RMB135.0 million)) are secured by the pledge of the Group's time deposits of approximately HK$233.0 million (equivalent to RMB205.1 million) as at 31 December 2009 (2008: approximately HK$85.2 million (equivalent to RMB75.0 million)) (note 25). The effective interest rates of the pledged bank deposits are ranging from 0.36% to 3.87% per annum (2008: 1.98% to 3.78% per annum). The pledged bank deposits have a maturity of 180 days.

(b) Cash and cash equivalents

As at 31 December 2009, included in cash and cash equivalents of the Group is approximately HK$145.5 million (2008: approximately HK$78.1 million) of bank balances denominated in RMB placed with the 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.

Notes to the Financial Statements

For the year ended 31 December 2009

25. ACCOUNTS AND BILLS PAYABLES – GROUP

	2009	2008
	HK$'000	*HK$'000*
Accounts payable	**19,954**	15,180
Bills payable	**284,031**	153,305
	303,985	168,485

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 reporting date is as follows:

	2009	2008
	HK$'000	*HK$'000*
0 – 90 days	**17,201**	8,332
91-180 days	**696**	4,441
Over 180 days	**2,057**	2,407
	19,954	15,180

As at the reporting date, the Group's bills payable of approximately HK$284.0 million (2008: approximately HK$153.3 million) were secured by the pledge of deposits (note 24(a)) and of approximately HK$85.2 million (2008: approximately HK$68.1 million) were also guaranteed by an independent third party.

26. PROVISION FOR RECLAMATION OBLIGATIONS

	2009	2008
	HK$'000	*HK$'000*
At 1 January	**69,901**	45,571
Provision made during the year	**5,170**	26,442
Provision used during the year	**(21,040)**	(5,222)
Provision reversed during the year	**(39,957)**	–
Exchange difference	**32**	3,110
At 31 December	**14,106**	69,901

The provision for land restoration and safety costs pursuant to the relevant PRC regulations and current mining activities has been determined by the management based on their best estimates. However, in so far as the effect of land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The amounts provided in relation to restoration and safety costs are reviewed regularly based upon the facts and circumstances available at the time and the provisions are updated accordingly.

27. BANK LOANS – GROUP

	2009 HK$'000	2008 HK$'000
Bank loans repayable within one year and classified as current liabilities	**159,058**	68,130
Analysed as follows:		
Secured	**136,335**	45,418
Unsecured	**22,723**	22,712
	159,058	68,130

At 31 December 2009, bank loans of approximately HK$136.3 million (2008: approximately HK$45.4 million) were denominated in RMB and were secured by certain accounts receivable (note 23), bear interest at fixed rates ranging from 4.37% to 5.83% per annum (2008: at fixed rate of 7.26% per annum); bank loans of approximately HK$22.7 million (2008: approximately HK$22.7 million) were denominated in RMB and were unsecured, bear interest at fixed rate of 5.31% per annum (2008: 12.14% per annum) and of approximately HK$79.5 million (being secured bank loans of approximately HK$56.8 million and unsecured bank loans of approximately of HK$22.7 million) was guaranteed by an independent third party (2008: approximately HK$45.4 million (being secured bank loans of approximately of HK$45.4 million)).

28. CONVERTIBLE BONDS – GROUP AND COMPANY

On 24 October 2006, the Company issued convertible bonds ("CB1") in the principal amount of HK$20,000,000 as part of the consideration for the acquisition of CIL. CB1 bone interest at 1% per annum with maturity date of 3 years from the date of issuance and were 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, the holder of CB1 was Dragon Rich, a substantial shareholder and connected party of the Company. During the year, Dragon Rich fully converted the CB1 into ordinary shares of the Company.

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

On 16 November 2007, the Company issued CB2 to Dragon Rich with principal amount of HK$230,000,000 as settlement of the promissory notes issued by the Company. CB2 were issued with an initial conversion price of HK$1.1 per share and will mature on 16 November 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. 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 in 2008. On 5 December 2008, the third party transferred the remaining CB2 with principal amount of HK$36,000,000 to Dragon Rich. On 4 December 2009, part of CB2 with principal amount of HK$32,000,000 was redeemed by the Company and a loss on redemption of approximately HK$7,236,000 (being the redemption payment of CB2 of HK$32,000,000 minus the liability component and compound derivative component of CB2 of HK$21,746,000 and HK$3,018,000 respectively) was recognised as finance costs. On 10 December 2009, the Company was in default of payment for other convertible bonds as shown below. According to subscription agreement of CB2, Dragon Rich has the right to demand immediate repayment when the Company defaults in the repayment of any of its loan indebtedness. Loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand of approximately HK$39,846,000 (being the accelerated liability component of CB2 of approximately HK$58,443,000 minus the compound derivative component of CB2 of approximately HK$18,597,000) was recognised as finance costs. As at 31 December 2009, the holder of CB2 was Dragon Rich with remaining principal amount of HK$195,000,000 (2008: HK$227,000,000). Up to the approval date of these financial statements, no demand for repayment was received from Dragon Rich and the CB2 was remained unsettled. The conversion price was adjusted from HK$1.1 per share to HK$0.61 per share upon the approval of the Bonus Issue on 30 April 2009. The conversion price was further adjusted from HK$0.61 per share to HK$0.46 per share upon the Open Offer becoming unconditional on 1 December 2009.

On 10 December 2007, the Company issued CB3 with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000). CB3 were issued with an initial 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 would 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. CB3 was secured by the Company's entire interest in CIL and Zhong Yue Energy Development (Shenzhen) Company Limited. The conversion price was adjusted from HK$1.8 per share to HK$1.0 per share upon the approval of the Bonus Issue. According to the conversion price reset terms of the CB3, the conversion price was further adjusted from HK$1.0 per share to HK$0.88 per share with effect from 10 June 2009. The conversion price was further adjusted from HK$0.88 per share to HK$0.67 per share upon the Open Offer becoming unconditional on 1 December 2009.

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

CB3 with principal amount of US$9,000,000 (equivalent to approximately HK$70,020,000) was converted by its holders during the year. On 10 December 2009, the holders of the CB3 exercised their rights to require the Company to fully redeem the remaining CB3 with principal amount of US$16,000,000 (equivalent to approximately HK$124,480,000) at a premium of 12.7% on the principal amount. The premium arising on redemption of CB3 was approximately US$2,038,000 (equivalent to approximately HK$15,858,000).

On 10 December 2009, the total amount of CB3 fell due (including outstanding principal of US$16,000,000 (equivalent to approximately HK$124,480,000), redemption premium of US$2,038,000 (equivalent to approximately HK$15,858,000) and accrued interest of US$160,000 (equivalent to approximately HK$1,245,000)) was approximately US$18,198,000 (equivalent to approximately HK$141,583,000). The Company was in default of payment and the related default interest of approximately US$33,000 (equivalent to approximately HK$256,000) calculated at 3% per annum for the period from 10 December 2009 to 31 December 2009 was charged to finance costs. A loss on redemption of approximately HK$12,447,000 (being HK$17,285,000 for recognising the liability component of CB3 up to the CB3 Outstanding Amount minus the compound derivative component of CB3 of HK$4,838,000) was recognised and charged to finance costs. As at 31 December 2009 and up to the approval date of these financial statements, the CB3 Outstanding Amount remained unsettled. On 31 December 2009, an agreement was signed to transfer the remaining CB3 from the original bondholders to an independent third party, MCC.

On initial recognition, the fair value of the liability component, included in 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, was 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 statement of financial position, with any changes in fair value being charged or credited to profit or loss in the period when change occurs.

The initial recognition of CB1, CB2 and CB3 in the consolidated statement of financial position are calculated as follows:

	CB1 *HK$'000*	CB2 *HK$'000*	CB3 *HK$'000*	Total *HK$'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	15,418	66,838	140,706	222,962

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Movement of liability component for the years ended 31 December 2009 and 2008 is as follows:

	2009			
	CB1	**CB2**	**CB3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January	**18,658**	**105,884**	**167,796**	**292,338**
Payment of interest	**(72)**	**–**	**(1,945)**	**(2,017)**
Interest expense	**317**	**52,419**	**24,081**	**76,817**
Default interest expense	**–**	**–**	**256**	**256**
Conversion of convertible bonds *(note 31(a))*	**(18,903)**	**–**	**(65,634)**	**(84,537)**
Amount redeemed	**–**	**(21,746)**	**–**	**(21,746)**
Redemption of convertible bonds	**–**	**–**	**17,285**	**17,285**
Loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand	**–**	**58,443**	**–**	**58,443**
At 31 December	**–**	**195,000**	**141,839**	**336,839**
Less: amount included under current liabilities	**–**	**(195,000)**	**(141,839)**	**(336,839)**
Amount included under non-current liabilities	**–**	**–**	**–**	**–**

	2008			
	CB1	CB2	CB3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	17,107	71,027	142,311	230,445
Payment of interest	(200)	–	(3,890)	(4,090)
Interest expense	1,751	35,900	29,375	67,026
Conversion of convertible bonds *(note 31(a))*	–	(1,043)	–	(1,043)
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

28. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Movement of compound derivative component for the years ended 31 December 2009 and 2008 is as follows:

	2009			2008		
	CB2	**CB3**	**Total**	CB2	CB3	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	**18,444**	**4,788**	**23,232**	120,119	38,687	158,806
Fair value loss/(gain)	**3,171**	**35,016**	**38,187**	(100,794)	(33,899)	(134,693)
Conversion of convertible bonds *(note 31(a))*	**–**	**(34,966)**	**(34,966)**	(881)	–	(881)
Redemption of convertible bonds	**(3,018)**	**(4,838)**	**(7,856)**	–	–	–
Loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand	**(18,597)**	**–**	**(18,597)**	–	–	–
At 31 December	**–**	**–**	**–**	18,444	4,788	23,232
Less: amount included under current liabilities	**–**	**–**	**–**	–	(4,788)	(4,788)
Amount included under non-current liabilities	**–**	**–**	**–**	18,444	–	18,444

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)

During the year ended 31 December 2009, the compound derivative financial instruments were revalued by BMI Appraisals Limited. The fair value of the derivative component of CB2 was calculated using the Binomial model. The fair value of the compound derivative component 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 31 December 2008, 10 December 2009 and 31 December 2009 were as follows:

	CB2 31 December 2009	**CB3 10 December 2009 (Date on redemption)**	CB2 31 December 2008	CB3 31 December 2008
Stock price	**HK$0.375**	**HK$0.395**	HK$0.48*	HK$0.48*
Expected volatility	**50.85%**	**55.26%**	76.26%	75.45%
Risk free rate	**0.21%**	**0.133%**	0.493%	0.509%
Expected life	**11 months**	**12 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 2009 to 31 December 2009 resulted in a net fair value loss of approximately HK$38.2 million (2008: fair value gain of approximately HK$134.7 million), which has been recorded as the "Change in fair value of compound derivative financial instruments" in the consolidated income statement for the year ended 31 December 2009.

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.

* The price of the Company's shares disclosed as at 31 December 2008 is before adjustments for Bonus Issue and Open Offer.

29. OTHER PAYABLES – GROUP

On 25 July 2007, the Group acquired 100% entire paid-up capital of Xiangyang, a company incorporated in the PRC, at a consideration of RMB450 million (equivalent to approximately HK$466.0 million). At 31 December 2008, the remaining unsettled consideration of the above acquisition was RMB25.2 million (equivalent to approximately HK$28.6 million). During the year ended 31 December 2009, the Group has fully settled the remaining consideration.

30. DEFERRED TAX – GROUP

The Group has taxable losses arising in Hong Kong of approximately HK$1.7 million (2008: approximately HK$2.1 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.

Movement in deferred tax liabilities during the year is as follows:

	Mining funds *HK$'000* *(Note)*	Amortisation allowance on mining rights in excess of related amortisation *HK$'000*	Total *HK$'000*
At 1 January 2009	–	–	–
Charged to profit or loss *(note 9)*	**3,744**	**9,545**	**13,289**
At 31 December 2009	**3,744**	**9,545**	**13,289**

Note:

Pursuant to changes in certain regulations of the PRC government, the Group is required to set aside the mining funds (i.e. production maintenance fee and safety fund). Such amendments are deductible for the purpose when they are set aside but are expensed for accounting purpose only when they are utilised, a deferred tax liability is provided for the temporary difference in respect of the excess fund set aside for tax purposes.

As at 31 December 2009, deferred tax liabilities amounted to approximately HK$51.8 million (2008: HK$26.3 million) in respect of the aggregate amount of temporary differences of HK$517.6 million (2008: HK$262.8 million) 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.

31. SHARE CAPITAL

	Notes	**2009** Number of shares	**2009** HK$'000	2008 Number of shares	2008 HK$'000
Authorised:					
At 1 January and 31 December, ordinary shares of 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		**669,589,885**	**66,959**	666,862,614	66,686
Conversion of convertible bonds for ordinary shares of HK$0.1 each	*(a)*	**136,711,038**	**13,671**	2,727,271	273
Exercise of share options for ordinary shares of HK$0.1 each	*(b)*	**14,400,000**	**1,440**	–	–
Issue of ordinary shares under Bonus Issue	*(c)*	**591,386,193**	**59,139**	–	–
Issue of ordinary shares under Open Offer	*(d)*	**706,043,558**	**70,604**	–	–
At 31 December, ordinary shares of HK$0.1 each		**2,118,130,674**	**211,813**	669,589,885	66,959

31. SHARE CAPITAL (Continued)

Notes:

(a) In March 2009, 57,142,857 ordinary shares in aggregate were issued, at the conversion price of HK$0.35 per share, to Dragon Rich upon the full conversion of CB1 (note 28). As a result, there was an increase in share capital and share premium of approximately 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.

In July and August 2009, 79,568,181 ordinary shares in aggregate were issued, at the conversion price of HK$0.88 per share, to the bondholder upon the partial conversion of the CB3 with principal amount of US$9.0 million (equivalent to approximately HK$70.0 million) (note 28). As a result, there was an increase in share capital and share premium of approximately HK$8.0 million and HK$92.6 million respectively.

During 2008, 2,727,271 ordinary shares in aggregate were issued, at the conversion price of HK$1.1 per share, to the bondholders upon the partial conversion of the convertible bonds (note 28). As a result, there was an increase in share capital and share premium of HK$273,000 and HK$1,651,000 respectively.

(b) During the year, 7,500,000, 5,000,000 and 1,900,000 share options were exercised at the subscription price of HK$0.355 per share (before adjustments for Bonus Issue and Open Offer), HK$1.376 per share (before adjustments for Bonus Issue and Open Offer) and HK$0.764 per share (after adjustments for Bonus Issue but before adjustments for Open Offer) respectively, giving rise to the issue of 14,400,000 new ordinary shares of HK$0.1 each for a total consideration of approximately HK$11.0 million. Accordingly, additional share capital of approximately HK$1.4 million and share premium of approximately HK$9.6 million, before the amount transfer from share option reserve, were resulted.

(c) Pursuant to an ordinary resolution passed on 30 April 2009, 591,386,193 ordinary shares of HK$0.1 each were issued by the capitalisation of contributed surplus of approximately HK$59.1 million as bonus shares for the Bonus Issue.

(d) On 19 October 2009, the Company proposed to raise funds by way of Open Offer of 706,043,558 offer shares at a subscription price of HK$0.2 per offer share on the basis of one offer share for every two existing shares of the Company. The Open Offer became unconditional on 1 December 2009. In December 2009, 655,347,974 and 50,695,584 new ordinary shares of HK$0.1 each were issued, at the subscription price of HK$0.2 per share, to existing shareholders and an underwriter respectively. The related share issue expenses of HK$4.3 million were dealt with in the share premium account.

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

32. SHARE OPTION SCHEME

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

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

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

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

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

32. SHARE OPTION SCHEME (Continued)

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

2009

Name or category of participant	At 1 January 2009	Granted during the year	Exercised before Bonus Issue (note (i))	Forfeited before Bonus Issue	Adjusted upon Bonus Issue (note (iv))	Exercised after Bonus Issue (note (i))	Adjusted upon Open Offer (note (v))	At 31 December 2009	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	–
	2,650,000	–	–	–	2,120,000	–	1,311,750	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Wu	3,750,000	–	–	–	3,000,000	–	1,856,250	**8,606,250**	30 November 2006	30 November 2006 to 20 October 2014	HK$0.1547
	2,650,000	–	–	–	2,120,000	–	1,311,750	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Xu	3,750,000	–	(3,750,000)	–	–	–	–	**–**	30 November 2006	30 November 2006 to 20 October 2014	–
	2,650,000	–	–	–	2,120,000	–	1,311,750	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Li *	1,100,000	–	–	–	880,000	(980,000)	275,000	**1,275,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	20,300,000	–	(7,500,000)	–	10,240,000	(980,000)	6,066,500	**28,126,500**			
Other employees											
In aggregate	17,800,000	–	(5,000,000)	(100,000)	10,160,000	(920,000)	6,033,500	**27,973,500**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	38,100,000	–	(12,500,000)	(100,000)	20,400,000	(1,900,000)	12,100,000	**56,100,000**			
Weighted average exercise price	HK$1.0750	–	HK$0.7634	HK$1.3760	–	HK$0.7644	–	**HK$0.5313**			

* Newly appointed as director on 18 August 2009

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32. SHARE OPTION SCHEME (Continued)

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

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$0.3550
	–	2,650,000	–	2,650,000	3 January 2008	3 January 2008 to 20 October 2014	HK$1.3760
Mr. Wu	3,750,000	–	–	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	HK$0.3550
	–	2,650,000	–	2,650,000	3 January 2008	3 January 2008 to 20 October 2014	HK$1.3760
Mr. Xu*	3,750,000	–	–	3,750,000	30 November 2006	30 November 2006 to 20 October 2014	HK$0.3550
	–	2,650,000	–	2,650,000	3 January 2008	3 January 2008 to 20 October 2014	HK$1.3760
	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$1.3760
	11,250,000	26,850,000	–	38,100,000			
Weighted average exercise price	HK$0.3550	HK$1.3760	–	HK$1.0750			

* Newly appointed as director on 3 March 2008

32. SHARE OPTION SCHEME (Continued)

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

Notes:

(i) In respect of the share options exercised in the current financial year, the weighted average share price of the Company at the dates of exercise was HK$0.7635 per share. The share options exercised during the year resulted in the issue of 14,400,000 ordinary shares of the Company (note 31(b)). No share options were granted during the year ended 31 December 2009.

(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 Company allotted 20,400,000 share options to the directors of the Company and the employees of the Group according to the adjustment terms of the Scheme upon the approval of the Bonus Issue on 30 April 2009. The initial exercise prices of the share options were at HK$0.3550 per share and HK$1.3760 per share. Upon approval of the Bonus Issue, the exercise prices of two batches of the share options adjusted to HK$0.1972 per share and HK$0.7644 per share respectively.

(v) The Company allotted 12,100,000 share options to the directors of the Company and the employees of the Group according to the adjustment terms of the Scheme upon the Open Offer becoming unconditional on 1 December 2009. The exercise prices of two batches of the share options were further adjusted from HK$0.1972 per share and HK$0.7644 per share to HK$0.1547 per share and HK$0.5995 per share respectively.

(vi) The options outstanding at 31 December 2009 had a weighed average remaining contractual life of 4.8 years (2008: 5.8 years).

(b) Fair value of the share options granted

No share options were granted during the year ended 31 December 2009. The fair value of the share options granted during the year ended 31 December 2008 was HK$0.71 per option (before adjustments for Bonus Issue and Open Offer). 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 was based on the historical data in past and was not necessarily indicative of the exercise patterns that might occur. The expected volatility was determined by reference to historical data and reflected the assumption that the historical volatility was indicative of future trends, which might also not necessarily be the actual outcome. No special features pertinent to the options granted were incorporated into measurement of fair value.

32. SHARE OPTION SCHEME (Continued)

(c) Financial effect of the share options

No share options were granted during the year ended 31 December 2009. The amount of share-based compensation arising from granting the share options during the year ended 31 December 2008 was approximately HK$19.1 million which had been included in profit or loss and the corresponding amount had been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

At 31 December 2009, the Company had 56,100,000 (2008: 38,100,000) share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 56,100,000 (2008: 38,100,000) additional ordinary shares of the Company and additional share capital of approximately HK$5.6 million (2008: HK$3.8 million) and share premium of approximately HK$24.2 million (2008: HK$37.1 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.

33. RESERVES

(a) Group

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

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

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

The contributed surplus of the Group arose as a result of (i) the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired; and (ii) the Group reorganisation in 2007 and represents the reduction of capital of HK$64.1 million pursuant to a special resolution passed on 1 November 2007.

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 were required to make a transfer of production maintenance fee to other reserve based on RMB8.5 per ton (2008: RMB15 per ton for the period from 1 January to 30 April 2008 and RMB8.5 per ton for the period from 1 May to 31 December 2008) of raw coal mined less the depreciation expenses of the underground coal mining equipment. According to the China Accounting Standards Explanatory Notice No. 3 and other relevant regulations issued by the Ministry of Finance in June 2009, effective for the financial periods beginning on or after 1 January 2009, instead of making an appropriation of funds from retained earnings to reserve, production maintenance fee and other expense of similar nature are required to be charged to cost of production and credited to reserve. Accordingly, during the year, the related funds are appropriated from retained earnings.

33. 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 2008	27,629	50	66,780	1,576	4,582	31,794	132,411
Issue of ordinary 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 and 1 January 2009	29,280	50	66,780	20,632	4,582	68,468	189,792
Share option forfeited	–	–	–	(71)	–	71	–
Issue of ordinary shares on conversion of convertible bonds	110,414	–	–	–	(4,582)	–	105,832
Exercise of share options	19,775	–	–	(10,220)	–	–	9,555
Issue of ordinary shares under Bonus Issue	–	–	(59,139)	–	–	–	(59,139)
Issue of ordinary shares under Open Offer	70,604	–	–	–	–	–	70,604
Shares issue expenses	(4,331)	–	–	–	–	–	(4,331)
Net loss for the year	–	–	–	–	–	(186,330)	(186,330)
At 31 December 2009	**225,742**	**50**	**7,641**	**10,341**	**–**	**(117,791)**	**(125,983)**

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 33(a) and represents (i) the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefore; and (ii) the reduction of capital pursuant to a special resolution passed on 1 November 2007. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus is also available for distribution to the owners of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

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

Details of share premium account and capital redemption reserve of the Company are set out in note 33(a) above.

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34. OPERATING LEASE COMMITMENTS

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings and office equipment payable by the Group are as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**1,378**	711
In the second to fifth years inclusive	**1,965**	386
After five years	**4,808**	39
	8,151	1,136

The Group leases certain properties under operating leases. The leases run for an initial period of one to twenty 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 2009 (2008: Nil).

35. CAPITAL COMMITMENTS

At 31 December 2009, 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$17.9 million (2008: approximately HK$29.1 million).

The Company did not have any significant capital commitments at 31 December 2009 (2008: Nil).

36. FINANCIAL GUARANTEE CONTRACTS – GROUP

As at 31 December 2009, Jinfeng executed a guarantee with respect to a bank loan, denominated in RMB35,000,000 (equivalent to HK$39,765,000) (2008: Nil), granted to an independent third party, under which Jinfeng is liable to pay the bank if the bank is unable to recover the loan from the independent third party. At the reporting date, no provision for the Group's obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the loans will be in default.

37. 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

	2009	2008
	HK$'000	HK$'000
Total remuneration of key management during the year (note 13)	7,004	11,220

(ii) Conversion and redemption of convertible bonds

During the year ended 31 December 2009, CB1 was fully converted into ordinary shares of the Company by Dragon Rich and HK$32,000,000 was paid to Dragon Rich for the partial redemption of CB2. 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. Being the executive directors of the Company during the year ended 31 December 2009, Mr. Bao, Mr. Wu and Mr. Xu all are also the directors of Dragon Rich.

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

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 statement of financial position 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 reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(a) Credit risk (Continued)

The credit risk on pledged bank deposits and cash and cash equivalents is limited because the Group's pledged bank deposits and cash and cash equivalents are all 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.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from accounts receivable is set out in note 23.

(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 and the Company's profit/(loss) after tax and retained earnings to a possible change in interest rates of +/- 0.5% (2008:+/- 0.5%), with effect from the beginning of the year. The calculations are based on the Group's bank balances held at the reporting date. All other variables are held constant.

	Group		Company		
	Profit after tax HK$'000	Retained earnings HK$'000	Loss after tax HK$'000	Profit after tax HK$'000	Retained earnings HK$'000
31 December 2009					
+0.5%	**532**	**532**	**(46)**	**N/A**	**46**
-0.5%	**(532)**	**(532)**	**46**	**N/A**	**(46)**
31 December 2008					
+0.5%	219	219	N/A	2	2
-0.5%	(219)	(219)	N/A	(2)	(2)

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(b) Interest rate risk (Continued)

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 reporting date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2008 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.

(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 in 2008 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 values of compound derivative financial instruments of the Group. As at the reporting date the Group is not exposed to this risk through the conversion and redemption options attached to CB2 and CB3 (2008: the Group was exposed to this risk through the conversion and redemption options attached to CB2 and CB3) issued by the Company as disclosed in note 28.

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(e) Equity price risk (Continued)

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax and retained earnings and the Company's profit/(loss) after tax and retained earnings to a possible change in Company's own share price of +/- 10% (2008: +/- 10%), based on the Group's exposure at the reporting date. All other variables are held constant.

	Group		Company		
	Profit after tax HK$'000	**Retained earnings HK$'000**	**Loss after tax HK$'000**	**Profit after tax HK$'000**	**Retained earnings HK$'000**
31 December 2009					
+10%	**–**	**–**	**–**	**N/A**	**–**
-10%	**–**	**–**	**–**	**N/A**	**–**
31 December 2008					
+10%	(18,763)	(18,763)	N/A	(18,763)	(18,763)
-10%	18,763	18,763	N/A	18,763	18,763

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 reporting date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2008 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 that are settled by delivering cash or another financial asset. 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. As at 31 December 2009, the Group had net current liabilities of approximately HK$69,014,000 (2008: approximately HK$170,025,000) and the Company had net current liabilities of approximately HK$331,108,000 (2008: approximately HK$194,385,000). The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and from the measures adopted by the directors as detailed in note 3.1 to the financial statements to meet its debt obligations.

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(f) Liquidity risk (Continued)

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

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 2009						
	Past due	Within 6 months or on demand	6 – 12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Accounts and bills payables	–	303,985	–	–	303,985	–	303,985
Other payables and accruals	–	66,134	–	–	66,134	–	66,134
Bank loans	–	79,529	79,529	–	159,058	–	159,058
Convertible bonds	141,839	195,000	–	–	336,839	–	336,839
Total	141,839	644,648	79,529	–	866,016	–	866,016

	Group As at 31 December 2008						
	Past due	Within 6 months or on demand	6 – 12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(f) Liquidity risk (Continued)

	Company As at 31 December 2009						
	Past due	Within 6 months or on demand	6 – 12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Other payables and accruals	**–**	**4,766**	**–**	**–**	**4,766**	**–**	**4,766**
Convertible bonds	**141,839**	**195,000**	**–**	**–**	**336,839**	**–**	**336,839**
Total	**141,839**	**199,766**	**–**	**–**	**341,605**	**–**	**341,605**

	Company As at 31 December 2008						
	Past due	Within 6 months or on demand	6 – 12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (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 2008 and 2009 may also be categorised as follows. See notes 3.15 and 3.21 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Loans and receivable				
– Accounts receivable	**257,970**	60,859	**–**	–
– Deposits and other receivables	**135,660**	155,114	**1,331**	–
– Pledged bank deposits	**232,967**	85,170	**–**	–
– Cash and cash equivalents	**159,067**	80,131	**9,156**	686
	785,664	381,274	**10,487**	686
Financial liabilities				
Financial liabilities at fair value through profit and loss				
– Compound derivative financial instruments	**–**	23,232	**–**	23,232
Financial liabilities measured at amortised cost				
– Accounts and bills payables	**303,985**	168,485	**–**	–
– Other payables and accruals	**66,134**	67,166	**4,766**	4,075
– Bank loans	**159,058**	68,130	**–**	–
– Convertible bonds	**336,839**	292,338	**336,839**	292,338
	866,016	619,351	**341,605**	319,645

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(h) Fair value measurements recognised in the statement of financial position – Group

The Group adopted the amendments to HKFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Group has take advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement disclosures have been presented.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

As at 31 December 2009, no financial assets and liabilities were measured at fair value. Accordingly, the hierarchy for fair value measurement disclosures have not been presented.

(i) Business risk

The Group's primary businesses are the production and sales of coal in PRC. The Group's financial results are influenced by the changes in prices of coal, as well as by the Group's ability to maintain or renew all requisite certificates, permits and business licences from relevant regulatory authorities in the PRC which the Group requires to operate in the production and sales of coal in PRC.

39. 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$1,107.8 million (2008: approximately HK$765.1 million) as capital, for capital management purpose.

40. SUBSEQUENT EVENTS

(i) On 2 February 2010 and 26 February 2010, the Company and MCC entered into a settlement agreement and a supplemental agreement respectively. Pursuant to the agreements, the Group shall carry out a reorganisation. The Group's 90% indirect equity interest in Xingyun will be transferred from Jinfeng to Dynamic Shenzhen (the "Xingyun Transfer"). Details of this transaction are set out in the Company's announcements dated 2, 3 and 26 February 2010.

On 12 March 2010, the Company and Henan Province Coalbed Gas Development and Utilisations Company Limited (河南省煤層氣開發利用有限公司), who owns 60% equity interest in Henan Yulong Energy Development Company, and The People's Government of Shilong District Pingdingshan City (平頂山市石龍區人民政府) entered into a non-binding framework agreement in relation to the possible acquisition of 22 coal mines in Henan Province, the PRC (the "Possible Transaction"). The directors of the Company estimated that the Company is required to raise funds amounting to RMB1,000 million (equivalent to approximately HK$1,136 million) for the Possible Transaction and the actual amount of funds to be raised and invested by the Company depends on the actual situation requirement. Details of this transaction are set out in the Company's announcement dated 15 March 2010.

40. SUBSEQUENT EVENTS (Continued)

(i) (Continued)

On 12 March 2010, the Company and the Subscriber entered into the Subscription Agreement in respect of the proposed issuance of the Convertible Notes in the maximum principal amount of HK$1,200 million with a conversion price of HK$0.1 per share and maturity date of 3 years from the date of issuance. The issuance of the Convertible Notes is conditional upon (i) the satisfaction of the due diligence exercise to be carried out by the Subscriber; (ii) the approval from the shareholders at a general meeting in accordance with the requirements under the Listing Rules and the Listing Committee of the Stock Exchange granting or agreeing to grant the approval to the transaction contemplated under the Subscription Agreement; and (iii) the approval from the shareholders at a special general meeting to increase the authorised share capital of the Company. The proceeds from the issuance of the Convertible Notes will be used to repay of the CB3, finance the Possible Transaction and as general working capital of the Group. In order to facilitate the possible conversion of the Convertible Notes, the directors of the Company proposed to increase the authorised share capital of the Company from 3,000,000,000 shares of HK$0.1 each to 30,000,000,000 shares of HK$0.1 each. Details of this transaction are set out in the Company's announcement dated 15 March 2010.

On 1 April 2010, the Company received a letter from the solicitors of MCC. According to the letter, MCC agreed not to instruct the trustee of the CB3 to serve an enforcement notice to the Company and to enforce the right to sell or dispose of the Collaterals before 31 May 2010. Details of this transaction are set out in the Company's announcement dated 7 April 2010.

If the proposed issuance of the Convertible Notes becomes unsuccessful on 31 May 2010 and if the trustee exercises its rights under the Collaterals after the completion of the Xingyun Transfer, MCC shall use its reasonable endeavours to procure the trustee to dispose of or sell the Collaterals at a price not less than the total amount due for the CB3 being the outstanding principal of the CB3, the total accrued interest and related expenses as according to the settlement agreement and supplemental agreement signed on 2 February 2010 and 26 February 2010 respectively.

As at the approval date of these financial statements, the Company did not complete the Possible Transaction, the proposed issuance of the Convertible Notes, the proposed increase in the authorised share capital of the Company and the Xingyun Transfer.

40. SUBSEQUENT EVENTS (Continued)

(ii) On 2 March 2010, Jinfeng and an independent third party entered into an agreement for an inter-company guarantee with a maximum amount up to RMB100 million (the "Mutual Guarantee Agreement"). The Mutual Guarantee Agreement would only come into effective when any of the parties carries out the bank financing activity. Details of this transaction are set out in the Company's announcement dated 23 April 2010.

(iii) On 15 March 2010, a fatal explosion occurred in a coal mine in Henan Province, the PRC. According to the suspension order given by the relevant local government authorities, all coal mines in Henan Province, including five coal mines of the Group namely Xiangyang Coal Mine, Xingyun Coal Mine, Xiaohe Coal Mine No. 1, Xiaohe Coal Mine No. 2 and Xiaohe Coal Mine No. 3, were required to suspend operations immediately for safety inspection. In April 2010, approvals for resumption in operation have been obtained from the relevant local government authorities after completion of safety inspection on the three coal mines of the Group, namely Xiaohe Coal Mine No. 1, Xiaohe Coal Mine No. 2 and Xingyun Coal Mine. These three coal mines have been resumed operation as at the approval date of the financial statements. For the other two coal mines owned by the Group, namely Xiaohe Coal Mine No. 3 and Xiangyang Coal Mine, due to the processes to be carried out by the relevant local government authorities on safety inspection have not yet been completed, these two coal mines are still in the stage of suspension. As at the date of this report, the directors of the Company cannot ascertain the length of the suspension period and is unable to estimate the respective financial effects.