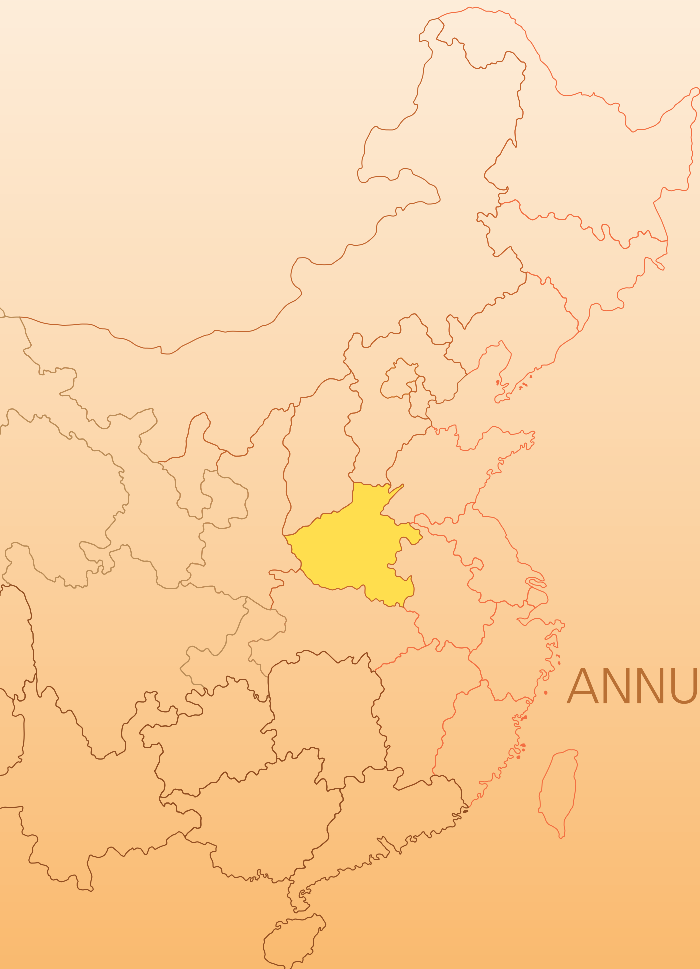
合動能源

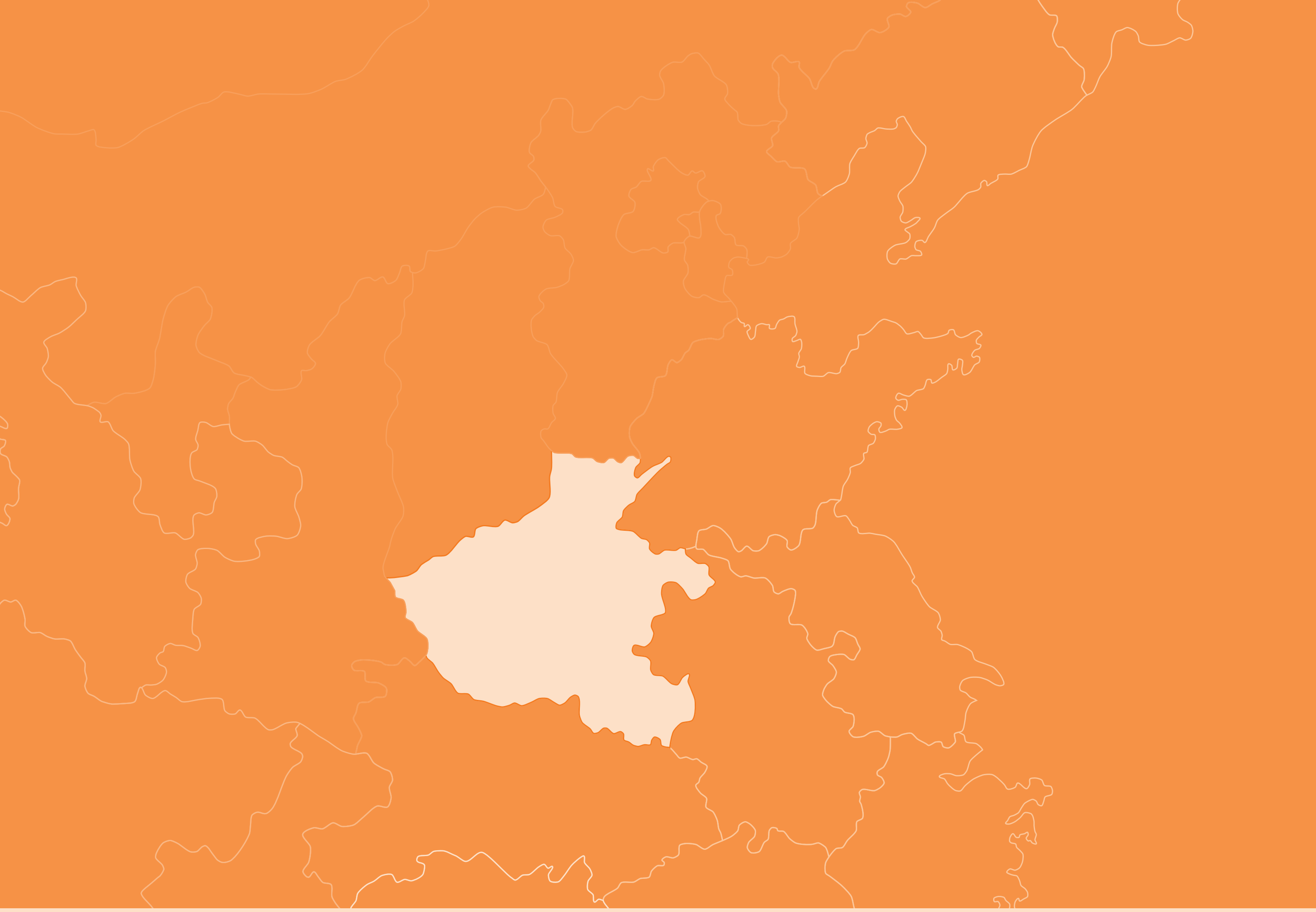
Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578



ANNUAL REPORT 2010



Contents

Corporate Information

DIRECTORS

Mr. Xu Lidi (Acting Chairman)
Mr. Wu Jiahong (Managing Director)
Mr. Li Chun On
Mr. Yang Hua
Mr. He Guangcai*
Ms. Wen Liman*
Mr. Xu Lian*

* *Independent Non-Executive Directors*

AUDIT COMMITTEE

Ms. Wen Liman (Chairman of the Committee)
Mr. He Guangcai
Mr. Xu Lian

NOMINATION COMMITTEE

Mr. Wu Jiahong (Chairman of the Committee)
Mr. He Guangcai
Ms. Wen Liman
Mr. Xu Lian

REMUNERATION COMMITTEE

Mr. Wu Jiahong (Chairman of the Committee)
Mr. He Guangcai
Ms. Wen Liman
Mr. Xu Lian

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

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Jun He Law Offices
Suite 2008, 20/F
Jardine House
1 Connaught Place
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Hong Kong

PRINCIPAL REGISTRAR

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11
Bermuda

REGISTRAR IN HONG KONG

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

PRINCIPAL BANKER

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Bank of China (BOC) Tower
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Central
Hong Kong

STOCK CODE

578

WEBSITE

http://www.irasia.com/listco/hk/dynamicenergy

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 2010 *HK$'000*	Year ended 31 December 2009 *HK$'000*	Year ended 31 December 2008 *HK$'000*	Year ended 31 December 2007 *HK$'000*	Year ended 31 December 2006 *HK$'000*
Revenue					
– Continuing operations*	**978,643**	863,894	789,960	564,757	102,599
– Discontinued operations**	**–**	–	–	58,925	159,936
Profit before income tax from continuing operations	**193,147**	174,516	420,868	221,409	25,690
Income tax expenses	**(100,252)**	(100,062)	(108,204)	(71,945)	(16,240)
Profit after tax from continuing operations	**92,895**	74,454	312,664	149,464	9,450
Profit/(Loss) from discontinued operations	**–**	–	–	813	(88,584)
Non-controlling interest	**(13,684)**	(28,034)	(29,132)	(16,082)	(3,549)
Profit/(Loss) attributable to the owners of the Company	**79,211**	46,420	283,532	134,195	(82,683)

* Continuing operations for the years ended 31 December 2006, 2007, 2008, 2009 and 2010 represent the production and sales of coal.

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

(B) ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**1,213,153**	1,190,084	1,088,006	1,001,009	332,583
Current assets	**1,247,873**	824,215	412,147	302,432	575,442
Total assets	**2,461,026**	2,014,299	1,500,153	1,303,441	908,025
Current liabilities	**882,266**	893,229	582,172	264,026	326,951
Non-current liabilities	**211,222**	13,289	152,889	641,201	288,448
Total liabilities	**1,093,488**	906,518	735,061	905,227	615,399
Total equity	**1,367,538**	1,107,781	765,092	398,214	292,626
– attributable to the owners of the Company	**1,254,387**	1,012,992	698,412	363,488	182,546
– Non-controlling interest	**113,151**	94,789	66,680	34,726	110,080

I hereby present on behalf of the board (the "Board") of directors (the "Directors") to the shareholders the annual report of Dynamic Energy Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2010.

Business Overview

Business of the Group

The Group is principally engaged in the sales and production of coal in Henan Province, the People's Republic of China, except Hong Kong (the "PRC"). The Company owns 90% effective interest of the five coal mines in Denfeng Municipal, Henan Province, with total area of approximately 7.7 square kilometres through its subsidiaries. As at 31 December 2010, the total coal reserves of the coal mines owned by the Group was approximately 31.6 million tons ("mt") and the designed annual production capacity was 1.41 mt.

Resumption and suspension of operation of the Group's coal mines

All the coal mines owned by the subsidiaries of the Company were suspended in August 2010 pursuant to the request of the relevant local government authorities due to the fatal accident happened in a coal mine in Henan Province, the PRC. This was the fourth time the operations of the Group's coal mines were suspended due to the accidents occurred by other coal mines operating in Henan Province, the PRC since year 2008 and the Board is highly concerned for this situation.

On 28 September 2010, the Company announced that it had received notification from Henan Jinfeng Coal Industrial Group Company Limited ("Jinfeng"), a subsidiary of which the Company indirectly holds 90% equity interest, that the approvals for resumption in operation of the four coal mines owned by Jinfeng and its subsidiaries had been obtained from relevant government authorities. The operations of these coal mines, namely Xiaohe Coal Mine No. 1, Xiaohe Coal Mine No. 2, Xingyun Coal Mine and Xiangyang Coal Mine have therefore been resumed immediately thereafter. For the remaining coal mine owned by Jinfeng, namely Xiaohe Coal Mine No. 3, whose approval for resumption in operation is yet to be granted by the relevant government authorities and hence it is uncertain as to when the operation of the coal mine can be resumed as at the date of this report.

Opportunities deriving from the challenges

The Board is concerned about the uncertainty and influence by the upcoming change of and implementation of certain government policies regarding the small and medium size coal mines in the PRC, especially for those which are not owned by state-owned enterprises, particularly in Henan Province, such as the Group's coal mines. The relevant local government authorities in Henan Province directs and encourages the acquisition and consolidation of small and medium-sized coal mines within the province. Large-scale coal mining companies are acting as the core consolidation units to acquire and consolidate small and medium size coal mines. The Group formed a joint venture (the "JV"), namely Henan Yulong Energy Development Co., Ltd., in November 2009 in Henan Province with one of the six state-owned coal mine consolidators dedicated by Henan provincial government.

In March 2010, the Company signed a framework agreement with the partner of the JV and The People's Government of Shilong District Pindingshan City in relation to the possible acquisition and consolidation of twenty-two coal mines in Shilong District Pindingshan City, Henan Province, the PRC. The Board considered that the possible acquisition is in line with the business strategy of the Group. On 22 June 2010 and 22 July 2010, the Company has announced that agreements have been made to acquire two of the twenty-two coal mines.

On 12 July 2010, the Group established a wholly owned subsidiary, Henan Zhongyuan JiuAn Foundation and Investment Company Limited ("JiuAn"), in Zhengzhou Economic and Technical Development District, Henan Province, the PRC. The registered capital of JiuAn is RMB650 million. The major purpose of establishing JiuAn is to facilitate the Group's future investment and acquisition activities in coal related business. JiuAn is registered as a wholly foreign owned enterprise in the PRC, which will facilitate and enhance the Group's investment and acquisition exercises in the future.

Issuance and conversion of convertible notes

At the special general meeting of the Company held on 27 May 2010, the shareholders of the Company approved the subscription agreement in relation to the issuance of convertible notes with aggregate maximum amount HK$1,200,000,000 ("CB4"). The first tranche of CB4 amounted to HK$200,000,000 were issued to Victory Investment China Group Limited (the "Subscriber") on 31 May 2010. In June 2010, following the receipt by the Company of a conversion notice dated 2 June 2010 in respect of conversion of CB4 in a principal amount of HK$80,000,000, 800,000,000 shares of the Company were issued, at HK$0.1 per share, to the Subscriber, representing approximately 27.4% of the issued share capital of the Company as at 31 December 2010.

The second tranche, third tranche and fourth tranche of CB4 with total principal amount of HK300,000,000 were issued to the Subscriber on 3 September 2010, 7 January 2011 and 11 January 2011 respectively. Taking into account the maximum principal amount of CB4 of HK$1,200,000,000 issuable under the subscription agreement, of which HK$500,000,000 have been issued to the Subscriber as at the date of this report, the unissued remaining balance of CB4 is in principal amount of HK$700,000,000.

On 21 March 2011, CB4 amounted to HK$360,000,000 has been further converted into 3,600,000,000 shares, representing approximately 55.2% of the issued share capital as at the date of this report.

The liquidity of the Company has been improved by the issuance of the several tranches of CB4. Furthermore, the conversion of CB4 with total principal amount of HK$440,000,000 into 4,400,000,000 shares of the Company up to the date of this report would have a positive effect on the Group's financial position namely, preservation of cash and bank balances for business operations and expansion strategy, improvement in the net asset value of the Company and improvement in the Company's gearing ratio immediately upon completion of the conversion.

Estimated coal resources of the coal mines owned by the Group and the Group's JV

The following table summarized the estimated coal resources of the coal mines owned by the Group and the Group's JV:

		As at 31 December 2010 *mt*	As at 31 December 2009 *mt*
Coal mines owned by the Group			
(i)	Xiaohe Coal Mine No.1	**8.0**	8.6
(ii)	Xiaohe Coal Mine No.2	**2.1**	2.3
(iii)	Xiaohe Coal Mine No.3	**1.9**	1.9
(iv)	Xiangyang Coal Mine	**15.5**	15.8
(v)	Xingyun Coal Mine	**4.1**	4.4
		31.6	33.0
Coal mines owned by the Group's JV			
(i)	Lanxiang Coal Mine*	**1.7**	–
(ii)	Tianyuan Coal Mine#	**1.6**	–
		3.3	–

* the JV owns 52% equity interest in Lanxiang Coal Mine

\# the JV owns 51% equity interest in Tianyuan Coal Mine

Financial Review

Revenue

The Group's revenue for the year ended 31 December 2010 amounted to approximately HK$978.6 million, increased by approximately 13.3% from approximately HK$863.9 million for the year ended 31 December 2009. The increase in revenue was mainly attributed to the increase in average selling price of coal during the year which compensated the negative effect from reduction in sales volume. For the year of 2010, the total sales volume was approximately 1.7 mt, representing a 19.0% decrease from approximately 2.1 mt for the year of 2009. The average selling price (net of value added tax) of coal was approximately RMB492.6 per ton for the year of 2010, representing an increase of 37.6% as compared with approximately RMB358.0 per ton for the last year. The increase in the average selling price during the year was mainly due to the continuous strong demand from local customers under the situation of shortage of coal supply within the province resulting from the closure of numbers of small to medium size coal mines and the influence by the increasing global coal price.

Gross Profit

Although the Group's revenue for the year ended 31 December 2010 increased as explained in the precedent paragraph, the gross profit of the Group was approximately HK$383.1 million, which decreased by approximately 24.1% as compared with approximately HK$504.9 million for the year of 2009. The gross profit margin of the Group's coal business also dropped from approximately 58.4% in the year of 2009 to approximately 39.1% for the year of 2010. The drop in the gross profit and gross profit margin of the Group during the year was due to increase in the production cost, such as removal and reallocation expenses and employees' insurance provision. With the boost of tightening employee protection and insurance policy from the government, the Group have increased the relevant employees' benefit provision expenses during the year.

Operating Profit

The operating profit of the Group for the year of 2010 was approximately HK$225.2 million which was less than the operating profit for the year of 2009 amounted to approximately HK$356.7 million by 36.9%. The reduction of operating profit notwithstanding the increase in revenue was mainly due to the drop of gross profit and gross profit margin as explained in precedent paragraph.

Net Profit

The profit attributable to the owners of the Company for the year ended 31 December 2010 was approximately HK$79.2 million while it was approximately HK$46.4 million for the year ended 31 December 2009. The increase in profit attributable to the owners was mainly due to the significant reduction in finance costs during the year, notwithstanding the operating profit was dropped. In the previous year, the Company had to account for the changes in the fair value of the compound derivate component of the convertible bonds. Without the redemption and acceleration of maturity date of certain convertible bonds, the finance cost incurred during the year has been reduced significantly which caused the improvement of net profit of the Group.

PROSPECT

The Company will continue to focus its business in the energy sector(s) in PRC, and will continue to look for investment opportunities in the energy sector(s). New energy and clean energy is highly advocated by PRC central government in China's Twelfth Five-Year Plan. The Company has made some investments in and will continue its effort in these new energy sector(s), especially those are coal mining related.

The Company will continue its effort in strengthening its cooperation with China's state-owned enterprises in coal mining business. The Company expects that the JV will play an important role in the Group's coal mining business. Yet the Company is highly concerned by the facts (1) that the operations of the five coal mines owned by its subsidiary, i.e. Jinfeng, have been abruptly suspended from time to time without any prior warning by the local government; (2) the government policies regarding coal mining industry is becoming unfavorable towards small and medium coal mining companies, especially those that are non-state-owned. As disclosed in the announcement of the Company dated 21 December 2010, the Company had attempted to dispose Jinfeng's business. The Company is quite concerned of the safety and uncertainty in the ongoing operations of these five coal mines since Jinfeng is not under the roof of any state-owned enterprises that have been dedicated to be the coal mine consolidators by Henan provincial government. The Company notes that the operations of these five mines are very vulnerable to the change of government policies. The Company has realized that the Company's role in such situations has been very passive and limited as evidenced in the past four suspension incidents, and could continue to be so in the future. Besides, Jinfeng's another shareholder holds different views in terms of strategy and the operations of these five coal mines from those of the Company. The Company shall act cautiously and prudently in dealing with incidents related with these five coal mines so as to best safeguard the interest of the shareholders of the Company.

The Company owns a subsidiary that is specialized in coalbed methane ("CBM") business. It is jointly cooperated with two PRC state-owned enterprises. The Company considers the development of new energy in China, such as CBM, is very promising since such sector is highly encouraged and supported by both the central and local governments. New energy sector, such as CBM, will not only provide energy but also help China in its environmental protection effort. CBM or CSM (coal seam methane) in coal mine was once regarded as a major hazard. Today it is supporting a rapidly expanding CBM industry especially in Australia, Canada and the United States of America. Some listed companies in Hong Kong, such as PetroChina Company Limited, China Petroleum and Chemical Corporation and CNOOC Limited have all been engaged in the CBM business. The Company sees a very optimistic growing prospect in the CBM sector, and could make further investment in the CBM sector in the future.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2010, the net asset value of the Group was approximately HK$1,367.5 million (as at 31 December 2009: approximately HK$1,107.8 million) and the total cash and bank balance (included pledged bank deposits) was approximately HK$238.8 million (as at 31 December 2009: approximately HK$392.0 million). As at 31 December 2010, the Group had net current assets of approximately HK$365.6 million (as at 31 December 2009: the net current liabilities approximately HK$69.0 million) and its current ratio increased from 0.9 times to 1.4 times for the year.

As at 31 December 2010, the Group's total accounts receivable amounted to approximately HK$777.2 million (as at 31 December 2009: approximately HK$258.0 million), of which approximately HK$293.7 million (as at 31 December 2009: approximately HK$180.0 million) were pledged to secure bank loans of the Group. Subsequent to 31 December 2010 and up to 23 March 2011, accounts receivable amounted to approximately HK$433.6 million has been settled.

As at 31 December 2010, bank deposits amounted to approximately HK$65.0 million (as at 31 December 2009: approximately HK$233.0 million) were 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$173.8 million (as at 31 December 2009: approximately HK$159.1 million).

As at 31 December 2010, the Group's total bank loan was amounted to approximately HK$325.5 million (as at 31 December 2009: approximately HK$159.1 million).

As at 31 December 2010, the Group's bills payable amounted to approximately HK$82.7 million (as at 31 December 2009: approximately HK$284.0 million) were secured by the pledge of the Group's time deposits and of approximately HK$35.4 million (as at 31 December 2009: approximately HK$85.2 million) were also guaranteed by an independent third party and of approximately HK$35.4 million (as at 31 December 2009: Nil) were co-guaranteed by an independent third party and a director of a major subsidiary of the Group.

The Group's gearing ratio, as a ratio of bank loans and loan from a shareholder plus liability components of the convertible bonds and divided by net assets, was 52.2% (as at 31 December 2009: 44.8%).

DIVIDEND

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

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Xu Lidi	45	Executive Director, Acting Chairman	4	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.
Wu Jiahong	44	Executive Director, Managing Director	5	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.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Li Chun On	37	Executive Director	5	Joined the Group in 2006 and is currently the chief financial officer and an authorised representative of the Company. He is also the company secretary of the Company and its subsidiaries. He graduated from the Hong Kong Polytechnic University. Mr. Li has more than 15 years of experience in accounting and financial management. Mr. Li 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.
Yang Hua	33	Executive Director	1	He graduated with Master's Degree from the Business School of National University of Singapore and with a Bachelor's Degree from Beijing Foreign Studies University. After graduation from the university in Beijing, he has joined a state-owned enterprise and involved in energy trading, economic environment analysis on global energy market and risk control. He has also acted as a trader in PRC for international commodities futures contracts and derivative products. Mr. Yang has extensive experience in financial market and risk management. He also has the qualification to deal with the futures contract in PRC.

Name	Age	Position held	Number of years of service	Business experience
Wen Liman	45	Independent Non-Executive Director	1	She graduated in 1988 from the College of Minerals Industry which was the direct subordinated college under the Coal Ministry of the PRC. She obtained the qualification as qualified accountant granted by Ministry of Finance of PRC in 1997. Ms. Wen has extensive experience in auditing, especially in audit for coal mine industry related companies. She has been engaged by the Coal Ministry of PRC to carry out audit for the Bureau of Mines. She also has extensive experience in financial and accounting areas. She was responsible for the auditing and supervision on the financial departments of companies in different industries, such as coal mining, tele-communications, real estates and high-technology. Ms. Wen has also involved in some prelisting projects for some enterprises.
He Guangcai	66	Independent Non-Executive Director	2	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 will be further enhanced.

Name	Age	Position held	Number of years of service	Business experience
Xu Lian	46	Independent Non-Executive Director	1	He graduated in 1997 with a bachelor degree in Banking and Currency from the Remin University of China and he is also studying a master degree of Economic Management in Dongbei University of Finance and Economics. He has extensive experience in banking, investment fund management, corporate and financial management and business modeling. He has been engaged as a management by stated-owned bank, commercial bank, large property development company and venture capital management company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

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.

The Company has adopted its own code of corporate governance practices which meets the code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

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 of 2010.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises seven Directors and its composition is set out as follows:

Executive Directors	Mr. Xu Lidi (Acting Chairman) Mr. Wu Jiahong (Managing Director) Mr. Li Chun On Mr. Yang Hua (appointed on 7 June 2010)
Independent Non-Executive Directors ("INEDs")	Ms. Wen Liman (appointed on 7 June 2010) Mr. He Guangcai Mr. Xu Lian (appointed on 27 July 2010)

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 2010 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.

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 meetings during the year of 2010 is set out below:

		Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Bao Hongkai *(Note 3)*	6/10	–	–	–
Mr. Cheng Koon Cheung *(Note 1)*	5/10	–	–	–
Mr. Xu Lidi	8/10	–	–	–
Mr. Wu Jiahong	10/10	–	1/1	2/2
Mr. Li Chun On	10/10	–	–	–
Mr. Yang Hua *(Note 4)*	3/10	–	–	–
INEDs				
Mr. Chan Kin Sang *(Note 2)*	4/10	1/2	–	–
Mr. Choi Man Chau, Michael *(Note 2)*	5/10	1/2	–	–
Mr. Ng Wing Hang, Patrick *(Note 2)*	2/10	1/2	–	–
Ms. Wen Liman *(Note 4)*	3/10	1/2	1/1	1/2
Mr. He Guangcai	7/10	1/2	1/1	2/2
Mr. Xu Lian *(Note 5)*	1/10	0/2	0/1	–

Notes:

1. Mr. Cheng Koon Cheung resigned as an executive Director with effect from 26 April 2010.

2. Mr Chan Kin Sang, Mr. Choi Man Chau, Michael and Mr. Ng Wing Hang, Patrick resigned as INEDs with effect from 28 April 2010.

3. Mr. Bao Hongkai resigned as the chairman of the Company and executive Director with effect from 7 June 2010.

4. Mr. Yang Hua was appointed as an executive Director and Ms. Wen Liman was appointed as an INED with effect from 7 June 2010.

5. Mr. Xu Lian was appointed as an INED with effect from 27 July 2010.

CHAIRMAN AND CHIEF EXECUTIVE

The positions and roles of Acting Chairman of the Board and Managing Director of the Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The Acting Chairman, being Mr. Xu Lidi is responsible for corporate planning and market development. The managing Director, being Mr. Wu Jiahong, 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

CG 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. The Board considers that the INEDs 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 CG Code.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee, with written terms of reference, in April 2005 in compliance with the CG Code and comprises the Managing Director, Mr. Wu Jiahong (as chairman) and three of the INEDs, namely Ms. Wen Liman, Mr. He Guangcai and Mr. Xu Lian.

The principle role and functions of the Remuneration Committee are to exercise the powers of the Board to determine and review the remuneration packages of individual executive Directors and key executives, including salaries, bonuses, benefits in kind and the terms on which they participate in any share options 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 2010, 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.

NOMINATION COMMITTEE

The Nomination Committee was established in April 2005 with written terms of reference and comprises the Managing Director, Mr. Wu Jiahong (as chairman) and three of the INEDs, namely Ms. Wen Liman, Mr. He Guangcai and Mr. Xu Lian.

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.

Potential new directors are identified and submitted to the Nomination Committee for approval. The nomination of directors should be taken into consideration of the candidate's qualification, ability and potential contribution to the Company. A candidate to be appointed as an independent non-executive Director must also satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

During the year of 2010, the Nomination Committee held two meetings to recommend the appointments of Mr. Yang Hua as an executive Director and Ms. Wen Liman and Mr. Xu Lian as INEDs of the Company to the Board after carried out the above procedures and criteria.

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference in compliance with the CG code. The Audit Committee of the Company comprises the three of the INEDs, namely Ms. Wen Liman (as chairman), Mr. He Guangcai and Mr. Xu Lian.

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.

The Audit Committee has, among other things, reviewed the financial statements of the Group for the year ended 31 December 2009 and 31 December 2010 and recommended such financial statements to the Board for approval.

The Audit Committee has recommended to the Board that BDO Limited, Certified Public Accountants, be nominated for re-appointment as auditor of the Company at the forthcoming AGM of the Company.

AUDITORS' REMUNERATION

During the year 2010, the remuneration paid and payable to the auditor of the Company, BDO Limited, for provision of the Group's statutory audit was HK$1.0 million and the remuneration paid to the preceding auditors of the Company, JBPB & Co., for other audit service was approximately HK$0.2 million.

DIRECTORS' AND AUDITOR'S 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 2010 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 auditor, BDO Limited, are set out in the Independent Auditor's Report on pages 27 to 28.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. During the year of 2010, the Board has reviewed the effectiveness of the existing system of internal controls with a view to safeguard the shareholders' investment and the Group's assets.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be posted on the website of the Stock Exchange and the Company on the business day following the shareholders meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board and/or the chairmen of the Remuneration Committee, Nomination Committee and Audit Committee or, in their absence, other members of the respective committees, and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Director.

The Company continues to enhance communications and relationships with its investors. Information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and/or interested parties. Enquiries from investors are dealt with an informative and timely manner.

To promote effective communication, the Company also maintains a website at http://www.irasia.com/listco/hk/dynamicenergy, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

Directors' Report

The Board are pleased to present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company during the financial year mainly 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 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 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.

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.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group has a total of approximately 3,900 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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three INEDs. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 December 2010 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.

CORPORATE GOVERNANCE

The Directors are in the opinion that the Company had complied with the CG Code provisions during the year ended 31 December 2010 save for the following exception.

CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive Directors do not have a specific term of appointment, but subject to rotation in accordance bye-law 111 of the Bye-laws of the Company. As the INEDs are subject to rotation in accordance with the Bye-laws of the Company, the Board considers that the INEDs so appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the CG Code.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors 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 2010, the Company had no reserve available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account as at 31 December 2010, in the amount of approximately HK$225.8 million, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 94.4% of the total revenue for the year. Purchases of coal from the Group's five largest suppliers accounted for 25.0% of the total cost of inventories sold for the year and purchases from the largest supplier included therein amounted to 11.5%.

None of the Directors 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 during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Bao Hongkai (Resigned on 7 June 2010)
Mr. Cheng Koon Cheung (Resigned on 26 April 2010)
Mr. Li Chun On
Mr. Wu Jiahong
Mr. Xu Lidi (Re-designated to Acting Chairman on 7 June 2010)
Mr. Yang Hua (Appointed on 7 June 2010)

INEDs:

Mr. Chan Kin Sang (Resigned on 28 April 2010)
Mr. Choi Man Chau, Michael (Resigned on 28 April 2010)
Mr. He Guangcai
Mr. Ng Wing Hang, Patrick (Resigned on 28 April 2010)
Ms. Wen Liman (Appointed on 7 June 2010)
Mr. Xu Lian (Appointed on 27 July 2010)

In accordance with bye-law 111 of the Company's Bye-laws, Mr. Xu Lidi, Mr. Wu Jiahong and Mr. Li Chun On will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 11 to 14.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

INDEPENDENCE CONFIRMATION

The Company has received from each of the INEDs an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

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

As at 31 December 2010, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Directors	Nature of interest	Number of shares	Number of underlying shares	Percentage of the Company's issued share capital
Mr. Bao Hongkai ("Mr. Bao")	Interest in controlled corporation	460,735,713 *(Note 1)*	423,913,043 *(Note 1)*	30.32%
	Personal interest	6,750,000	–	0.23%
Mr. Wu Jiahong ("Mr. Wu")	Personal interest	–	14,688,000 *(Note 2)*	0.50%
Mr. Xu Lidi ("Mr. Xu")	Personal interest	10,125,000	6,081,750 *(Note 2)*	0.56%
Mr. Li Chun On ("Mr. Li")	Personal interest	381,000	1,275,000 *(Note 2)*	0.06%

Notes:

(1) Such shares were held through Dragon Rich Resources Limited ("Dragon Rich"), a company incorporated in 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 was an executive Director and he resigned as chairman of the Company and executive Director in June 2010. Mr. Wu and Mr. Xu are executive Directors during the year. Mr. Bao, Mr. Wu and Mr. Xu are the directors of Dragon Rich. As at 31 December 2010, the outstanding principal face value of convertible bonds held by Dragon Rich was HK$195,000,000. The outstanding convertible bonds has been fully redeemed by the Company in January 2011.

(2) Mr. Xu is interested as a grantee of share options to subscribe for 6,081,750 shares, Mr. Wu is interested as a grantee of share options to subscribe for 14,688,000 shares 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 annual financial report.

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 2010.

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 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 2010, 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 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
Victory Investment China Group Limited *(Note 1)*	Beneficial owner	800,000,000	27.41%
Wang Ruiyun *(Note 1)*	Interests in controlled corporation	800,000,000	27.41%
Dragon Rich *(Note 2)*	Beneficial owner	460,735,713	15.79%
Hopeview Consultants Limited *(Note 3)*	Beneficial owner	202,500,000	6.94%
Liu Changsong *(Note 3)*	Interests in controlled corporation	202,500,000	6.94%

(b) Long positions in underlying shares – Derivatives

Name of Shareholders	Capacity	Number of underlying shares	Approximate percentage of shareholding
Victory Investment China Group Limited *(Note 1)*	Beneficial owner	2,200,000,000	75.39%
Dragon Rich *(Note 2)*	Beneficial owner	423,913,043	14.53%

Notes:

(1) Victory Investment China Group Limited is beneficially and wholly owned by Mr. Wang Ruiyun. He is not related to the Board or management of the Company.

(2) 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.

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

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

PENSION SCHEME AND COSTS

Details of the Group's pension scheme and the employer's pension costs charged to the income statement for the year are set out in notes 3.20 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 2010.

CONNECTED TRANSACTIONS

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

No Directors are considered to have interest in any business which is likely to compete directly or indirectly with that of the Group.

DONATIONS

Charitable and other donations made by the Group during the year ended 31 December 2010 amounted to approximately HK$2.2 million.

AUDITORS

The financial statements since the year ended 31 December 2004 were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditor of the Company effective from 26 November 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

For and on behalf of the Board

Xu Lidi
Acting Chairman

Hong Kong
25 March 2011

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To the shareholders 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 29 to 104, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 consolidated 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 2010 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.

BDO Limited
Certified Public Accountants
Li Wing Yin
Practising Certificate no. P05035

Hong Kong, 25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**978,643**	863,894
Cost of sales		**(595,508)**	(358,962)
Gross profit		**383,135**	504,932
Other income	5	**11,061**	4,858
Selling expenses		**(9,183)**	(8,633)
Administrative expenses		**(136,049)**	(112,364)
Other operating expenses		**(23,731)**	(32,092)
Operating profit		**225,233**	356,701
Change in fair value of compound derivative financial instruments	29	**–**	(38,187)
Finance costs	7	**(28,113)**	(143,874)
Share of losses of jointly controlled entity	21	**(3,973)**	(124)
Profit before income tax	8	**193,147**	174,516
Income tax expense	9	**(100,252)**	(100,062)
Profit for the year		**92,895**	74,454
Attributable to:			
Owners of the Company	10	**79,211**	46,420
Non-controlling interest		**13,684**	28,034
Profit for the year		**92,895**	74,454
Earnings per share for profit attributable to the owners of the Company during the year	11		
– Basic *(HK cents)*		**3.077**	2.570
– Diluted *(HK cents)*		**2.094**	2.561

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
Profit for the year	**92,895**	74,454
Other comprehensive income for the year		
Exchange gain on translation of financial statements of foreign operations		
– subsidiaries	**52,434**	860
– jointly controlled entity	**3,540**	–
Total comprehensive income for the year	**148,869**	75,314
Total comprehensive income attributable to:		
Owners of the Company	**130,507**	47,205
Non-controlling interest	**18,362**	28,109
	148,869	75,314

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**283,950**	250,844
Prepaid lease payments	16	**714**	970
Goodwill	18	**207,396**	224,207
Mining rights	19	**630,134**	623,067
Other intangible assets	20	**434**	38
Interest in jointly controlled entity	21	**90,525**	90,958
		1,213,153	1,190,084
Current assets			
Inventories	22	**14,774**	33,707
Accounts receivable	23	**777,177**	257,970
Prepayments, deposits and other receivables		**193,445**	140,504
Financial assets at fair value through profit or loss	24	**23,644**	–
Pledged bank deposits	25(a)	**65,010**	232,967
Cash and cash equivalents	25(b)	**173,823**	159,067
		1,247,873	824,215
Current liabilities			
Accounts and bills payables	26	**122,796**	303,985
Other payables and accruals		**200,064**	66,134
Provision for reclamation obligations	27	**33,660**	14,106
Provision for tax		**5,261**	13,107
Bank loans	28	**325,485**	159,058
Convertible bonds	29	**–**	336,839
Loan from a shareholder	29	**195,000**	–
		882,266	893,229
Net current assets/(liabilities)		**365,607**	(69,014)
Total assets less current liabilities		**1,578,760**	1,121,070
Non-current liabilities			
Convertible bonds	29	**193,728**	–
Deferred tax liabilities	30	**17,494**	13,289
		211,222	13,289
Net assets		**1,367,538**	1,107,781

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
EQUITY			
Share capital	*31*	**291,813**	211,813
Reserves	*33(a)*	**962,574**	801,179
Equity attributable to the owners of the Company		**1,254,387**	1,012,992
Non-controlling interest		**113,151**	94,789
Total equity		**1,367,538**	1,107,781

Wu Jiahong
Director

Xu Lidi
Director

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*17*	**819,803**	668,904
Current assets			
Prepayments, deposits and other receivables		**455**	1,341
Cash and cash equivalents		**1,941**	9,156
		2,396	10,497
Current liabilities			
Other payables and accruals		**4,404**	4,766
Convertible bonds	*29*	**–**	336,839
Loan from a shareholder	*29*	**195,000**	–
		199,404	341,605
Net current liabilities		**(197,008)**	(331,108)
Total assets less net current liabilities		**622,795**	337,796
Non-current liabilities			
Convertible bonds	*29*	**193,728**	–
Net assets		**429,067**	337,796
EQUITY			
Share capital	*31*	**291,813**	211,813
Reserves	*33(b)*	**137,254**	125,983
Total equity		**429,067**	337,796

Wu Jiahong
Director

Xu Lidi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to the owners of the Company												Non-controlling 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(b))*	13,671	110,414	(4,582)	–	–	–	–	–	–	–	–	119,503	–	119,503
Exercise of share options *(note 31(c))*	1,440	19,775	–	(10,220)	–	–	–	–	–	–	–	10,995	–	10,995
Issue of ordinary shares under bonus issue *(note 31(d))*	59,139	–	–	–	–	–	(59,139)	–	–	–	–	–	–	–
Issue of ordinary shares under open offer *(note 31(e))*	70,604	70,604	–	–	–	–	–	–	–	–	–	141,208	–	141,208
Shares issue expenses *(note 31(e))*	–	(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 – subsidiaries	–	–	–	–	–	–	–	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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to the owners of the Company												Non-controlling 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 2010	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
Share option forfeited	–	–	–	(1,952)	–	–	–	–	–	1,952	–	–	–	–
Issue of convertible bonds	–	–	42,426	–	–	–	–	–	–	–	–	42,426	–	42,426
Issue of ordinary shares on conversion of convertible bonds *(note 31(b))*	80,000	59	(11,597)	–	–	–	–	–	–	–	–	68,462	–	68,462
Transactions with owners	80,000	59	30,829	(1,952)	–	–	–	–	–	1,952	–	110,888	–	110,888
Transfer to statutory reserves	–	–	–	–	–	10,472	–	–	–	(34,217)	23,745	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	79,211	–	79,211	13,684	92,895
Other comprehensive income for the year														
– Exchange gain on translation of financial statements of foreign operations														
– subsidiaries	–	–	–	–	–	–	–	47,756	–	–	–	47,756	4,678	52,434
– jointly controlled entity	–	–	–	–	–	–	–	3,540	–	–	–	3,540	–	3,540
Total comprehensive income for the year	–	–	–	–	–	–	–	51,296	–	79,211	–	130,507	18,362	148,869
At 31 December 2010	**291,813**	**225,801**	**30,829**	**8,389**	**50**	**65,945**	**8,282**	**98,735**	**27,442**	**414,247**	**82,854**	**1,254,387**	**113,151**	**1,367,538**

* The aggregate amount of these balances of approximately HK$962.6 million (2009: approximately HK$801.2 million) represents the reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Profit before income tax		**193,147**	174,516
Adjustments for:			
Change in fair value of compound derivative financial instruments	*29*	**–**	38,187
Share of losses of jointly controlled entity	*21*	**3,973**	124
Interest expense	*7*	**20,022**	84,345
Amortisation of mining rights	*8*	**17,636**	18,146
Amortisation of prepaid lease payments	*8*	**288**	285
Amortisation of intangible assets	*8*	**106**	103
Impairment loss on goodwill	*8*	**16,811**	15,748
Loss on redemption of convertible bonds	*7, 29*	**–**	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, 29*	**–**	39,846
Interest income	*5*	**(6,372)**	(2,689)
Depreciation	*8*	**25,829**	21,036
Loss/(Gain) on disposals of property, plant and equipment	*8*	**1,042**	(204)
Provision for impairment of accounts receivable	*23*	**11,345**	–
Bad debts recovery	*5*	**(177)**	–
Operating profit before working capital changes		**283,650**	409,126
Decrease/(Increase) in inventories		**20,295**	(8,590)
Increase in accounts receivable		**(520,130)**	(197,081)
(Increase)/Decrease in prepayments, deposits and other receivables		**(44,184)**	20,459
(Decrease)/Increase in accounts and bills payables		**(186,150)**	135,416
Increase/(Decrease) in other payables and accruals		**131,258**	(1,051)
Increase/(Decrease) in provision for reclamation obligations		**18,984**	(55,830)
Increase in financial assets at fair value through profit or loss	*24*	**(23,644)**	–
Cash (used in)/generated from operations		**(319,921)**	302,449
Interest received		**6,372**	2,689
Interest paid		**(16,907)**	(9,289)
Income tax paid		**(103,234)**	(119,332)
Net cash (used in)/generated from operating activities		**(433,690)**	176,517

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from investing activities			
Acquisition of a subsidiary	*34*	**(2,903)**	–
Purchases of other intangible assets	*20*	**(503)**	(23)
Purchases of property, plant and equipment	*15*	**(54,534)**	(66,587)
Proceeds from disposals of property, plant and equipment		**5,259**	801
Investment in jointly controlled entity		**–**	(91,000)
Decrease/(Increase) in pledged bank deposits		**177,369**	(147,754)
Net cash generated from/(used in) investing activities		**124,688**	(304,563)
Cash flows from financing activities			
New bank loans		**681,941**	313,032
Repayments of bank loans		**(521,936)**	(222,258)
Redemption payment of convertible bonds		**(124,480)**	(32,000)
Proceeds from issue of ordinary shares under open offer		**–**	141,208
Proceeds from issue of convertible bonds		**300,000**	–
Payment of redemption premium of convertible bonds		**(15,858)**	–
Share issue expenses		**–**	(4,331)
Proceeds from exercise of share options		**–**	10,995
Net cash generated from financing activities		**319,667**	206,646
Net increase in cash and cash equivalents		**10,665**	78,600
Cash and cash equivalents at 1 January		**159,067**	80,131
Effect of foreign exchange rate changes		**4,091**	336
Cash and cash equivalents at 31 December		**173,823**	159,067

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 29 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 2010 were approved for issue by the board of directors on 25 March 2011.

2. ADOPTION OF HKFRSs

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

2. ADOPTION OF HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2010 (Continued)

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKAS 17 (Amendments) – Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of its leases in the PRC as operating leases continues to be appropriate.

HK interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The Interpretation is a clarification of an existing standard, HKAS 1 *Presentation of Financial Statements*. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by representing the opening balances as at 1 January 2009, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. However, the adoption of this new accounting policy has not affected the consolidated or the company statement of financial position as the Group and the Company did not have such type of loans as at 31 December 2008, 2009 and 2010.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 January 2013

2. ADOPTION OF HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The 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 historical cost convention except for certain financial assets and liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries up to 31 December. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Business combination and basis of consolidation (Continued)

Business combination from 1 January 2010 (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised in profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

3.3 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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 that 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 at 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 income and accumulated separately in the exchange fluctuation reserve in equity.

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 time proportion basis using 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 aggregate of consideration transferred and the amount recognised for non-controlling interests over the 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.

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 fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the aggregate of consideration transferred and the amount recognised for non-controlling interests 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 any impairment losses. Amortisation is calculated on 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 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 5% per annum
Plant and machineries	4% to 33% 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 25% per annum

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Property, plant and equipment (Continued)

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 of 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Impairment of non-financial assets (Continued)

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 Leasing

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 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. Regular way purchases of financial assets are recognised on trade date. 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)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

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

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income earned on the financial assets are recognised in profit or loss in accordance with the policies set out in note 3.6

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These 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, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Financial assets (Continued)

Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, 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.

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3.16 Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories comprise coal, spare parts and consumable store for trading and own consumption purposes. Costs of coal is determined using weighted average basis 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Accounting for income taxes (Continued)

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

(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

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)

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 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 in accordance with the Group's accounting policy for borrowing costs.

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

These 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.25 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 Related parties (Continued)

(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.

(ii) Depreciation

The Group depreciates the property, plant and equipment on a straight-line method over the estimated useful lives ranging between 3 to 20 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 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(x) Central pension scheme

The subsidiaries of the Group are required to contribute certain percentage on their payroll costs for employees to the central pension scheme. However, the implementation and settlement of the contribution to the central pension scheme varies among various Social Security Bureaus in cities of the PRC, and the Group has not finalised its contribution calculation and payments with the local Social Security Bureau in the PRC. Accordingly, significant judgement is required in determining the amount of the contribution. The Group recognised the contribution based on management's best estimates according to the understanding of the rules of the central pension scheme.

4.2 Critical judgement in applying the entity's accounting policies

(i) 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 ("Xiangyang") 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:

	2010	2009
	HK$'000	*HK$'000*
Revenue/Turnover		
Sale of coal	**978,643**	863,894
Other income		
Interest income	**6,372**	2,689
Bad debts recovery	**177**	–
Sale of ancillary materials	**725**	311
Sale of consumable tools	**2,600**	887
Repair servicing income	**208**	458
Gain on disposals of property, plant and equipment	**–**	204
Others	**979**	309
	11,061	4,858

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 Company'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) located outside the PRC are less than 5%. 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 the year ended 31 December 2010, approximately HK$836.7 million or 85.5% (2009: approximately HK$732.8 million or 84.8%) of the Group's revenues were derived from two (2009: three) single customers in the sale of coal.

At the reporting date, 89.7% (2009: 93.9%) of the Group's accounts receivable were due from these customers.

7. FINANCE COSTS

	2010 ***HK$'000***	2009 *HK$'000*
Interest charge on bank loans		
– wholly repayable within five years	**12,387**	7,272
Effective interest expense on convertible bonds repayable within five years	**5,826**	76,817
Default interest expense on convertible bonds repayable within five years	**1,809**	256
Interest expenses on financial liabilities stated at amortised cost	**20,022**	84,345
Bank charges on bills receivable discounted without recourse	**8,091**	–
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
	28,113	143,874

8. PROFIT BEFORE INCOME TAX

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

	2010	2009
	HK$'000	*HK$'000*
Cost of inventories sold	**579,186**	342,497
Auditors' remuneration	**1,283**	1,111
Depreciation*	**25,829**	21,036
Operating lease charges on land, buildings and office equipment	**1,584**	1,956
Amortisation of prepaid lease payments	**288**	285
Amortisation of mining rights	**17,636**	18,146
Amortisation of intangible assets	**106**	103
Employee benefit expense, (including directors' remuneration and retirement benefit scheme contributions) *(note 12)*	**240,791**	122,910
Exchange loss, net	**2,375**	–
Provision for impairment of accounts receivable	**11,345**	–
Loss/(Gain) on disposals of property, plant and equipment	**1,042**	(204)
Impairment loss on goodwill	**16,811**	15,748

* Depreciation of approximately HK$17.8 million (2009: approximately HK$12.5 million) has been included in cost of sales and approximately HK$8.0 million (2009: approximately HK$8.5 million) in administrative expenses.

9. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

Corporate income tax arising from operations in the PRC is calculated at the statutory income tax rate of 25% (2009: 25%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations in the PRC.

	2010	2009
	HK$'000	*HK$'000*
Current tax – PRC income tax		
– Current year	**91,729**	79,805
– Under-provision in respect of prior year	**4,948**	6,968
Deferred tax *(note 30)*		
– Current year	**3,575**	13,289
	100,252	100,062

9. INCOME TAX EXPENSE (Continued)

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

	2010	2009
	HK$'000	*HK$'000*
Profit before income tax	**193,147**	174,516
Tax on profit before income tax, calculated at the rates applicable to profit in the tax jurisdictions	**51,848**	60,784
Tax effect of non-taxable income	**(5,072)**	(9,991)
Tax effect of non-deductible expenses	**48,467**	42,380
Tax losses not recognised	**61**	–
Tax effect of prior year's unrecognised tax losses utilised during the year	**–**	(79)
Under-provision in respect of prior year	**4,948**	6,968
Income tax expense	**100,252**	100,062

10. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of approximately HK$79.2 million (2009: approximately HK$46.4 million), a loss of approximately HK$19.6 million (2009: approximately HK$186.3 million) has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

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

	2010 HK$'000	2009 HK$'000
Profit		
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**79,211**	46,420
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**4,616**	–
Profit for the year attributable to the owners of the Company for the purpose of diluted earnings per share computation	**83,827**	46,420

	2010 '000	2009 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,574,021**	1,806,146
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**4,592**	6,177
Convertible bonds	**1,424,800**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share computation	**4,003,413**	1,812,323

The calculation of basic earnings per share attributable to the owners of the Company for the year ended 31 December 2010 is based on the profit attributable to the owners of the Company of approximately HK$79.2 million (2009: approximately HK$46.4 million) and on the weighted average of 2,574,021,000 (2009: 1,806,146,000) ordinary shares outstanding during the year.

The calculation of diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2010 is based on the profit attributable to the owners of the Company of approximately HK$83.8 million and on the weighted average of 4,003,413,000 ordinary shares outstanding during the year.

11. EARNINGS PER SHARE (Continued)

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 was 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 was 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.

12. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2010 ***HK$'000***	2009 *HK$'000*
Wages, salaries, allowance and other benefits in kind	**139,075**	122,725
Retirement benefit scheme contribution – defined contribution plans	**101,716**	185
	240,791	122,910

13. DIRECTORS' REMUNERATION

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

	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*
2010						
Executive Directors						
Bao Hongkai ("Mr. Bao")*	–	989	–	–	–	989
Wu Jiahong ("Mr. Wu")	–	2,097	–	–	12	2,109
Cheng Koon Cheung ("Mr. Cheng")**	77	–	–	–	–	77
Xu Lidi ("Mr. Xu")	–	1,573	–	–	–	1,573
Li Chun On ("Mr. Li")	–	1,064	–	–	12	1,076
Yang Hua ("Mr. Yang")***	–	83	–	–	–	83
Independent Non-Executive Directors						
Chan Kin Sang****	49	–	–	–	–	49
Ng Wing Hang, Patrick****	49	–	–	–	–	49
Choi Man Chau, Michael****	49	–	–	–	–	49
He Guangcai	120	–	–	–	–	120
Wen Liman***	68	–	–	–	–	68
Xu Lian*****	52	–	–	–	–	52
	464	5,806	–	–	24	6,294

* resigned on 7 June 2010
** resigned on 26 April 2010
*** newly appointed on 7 June 2010
**** resigned on 28 April 2010
***** newly appointed on 27 July 2010

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
2009						
Executive Directors						
Mr. Bao	–	2,491	–	–	–	2,491
Mr. Wu	–	1,903	–	–	12	1,915
Mr. Cheng	240	–	–	–	–	240
Mr. Xu	–	1,574	–	–	–	1,574
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

newly appointed on 18 August 2009

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 (2009: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2009: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included four (2009: three) directors whose emoluments are reflected in the analysis presented in note 13. The emoluments payable to the remaining one (2009: two) individual during the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**456**	939
Retirement benefit scheme contributions	**–**	8
	456	947

The emoluments fell within the following band:

	2010	2009
Emolument band		
Nil – HK$1,000,000	**1**	2

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

During the year, no share options (2009: Nil) have been granted to the remaining one (2009: two) highest paid individual of the Group to subscribe for ordinary shares of the Company.

15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings *HK$'000*	Plant and machineries *HK$'000*	Mining related machinery and equipment *HK$'000*	Furniture, fixtures, equipment and leasehold improvement *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
At 1 January 2009							
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
Year ended 31 December 2010							
Opening net book value	**138,258**	**11,732**	**64,406**	**6,805**	**14,398**	**15,245**	**250,844**
Exchange difference	**5,454**	**441**	**2,625**	**256**	**458**	**1,468**	**10,702**
Additions	**5,319**	**1,196**	**11,968**	**611**	**2,427**	**33,013**	**54,534**
Disposals	**(1,951)**	**(26)**	**(1,857)**	**(27)**	**(2,440)**	**–**	**(6,301)**
Depreciation	**(8,267)**	**(2,480)**	**(9,195)**	**(1,142)**	**(4,745)**	**–**	**(25,829)**
Closing net book value	**138,813**	**10,863**	**67,947**	**6,503**	**10,098**	**49,726**	**283,950**
At 31 December 2010							
Cost	**172,417**	**19,211**	**93,189**	**11,237**	**23,443**	**49,726**	**369,223**
Accumulated depreciation	**(33,604)**	**(8,348)**	**(25,242)**	**(4,734)**	**(13,345)**	**–**	**(85,273)**
Net book value	**138,813**	**10,863**	**67,947**	**6,503**	**10,098**	**49,726**	**283,950**

16. PREPAID LEASE PAYMENTS – GROUP

	2010	2009
	HK$'000	*HK$'000*
Opening net book amount	**970**	1,255
Exchange difference	**32**	–
Amortisation charge for the year	**(288)**	(285)
Closing net book amount	**714**	970

All prepaid lease payments at 31 December 2010 and 2009 for leasehold interests in land are held in the PRC on medium-term leases.

At 31 December 2010, 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 2009 and 2010.

17. INTERESTS IN SUBSIDIARIES – COMPANY

	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**397,801**	397,801
Due from subsidiaries	**422,002**	271,103
	819,803	668,904

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 2010 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
Highlink Investments Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding
Alive Investments Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding
Indirectly held				
Popular Sky Coal Industrial Limited	Hong Kong	1 share of HK$1	100	Investment holding
Hong Kong Zhongyuan Energy Co., Limited	Hong Kong	1 share of HK$1	100	Investment holding
Hong Kong Zhongzhou Energy Co., Limited	Hong Kong	1 share of HK$1	100	Investment holding
Dynamic Energy Development (Shenzhen) Company Limited#	PRC	HK$20,000,000	100	Investment holding
Zhong Yue Energy Development (Shenzhen) Company Limited ("Zhong Yue")#	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#	PRC	RMB60,000,000	90	Production and sale of coal
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
Henan Zhongyuan JiuAn Foundation & Investment Company Limited#	PRC	RMB132,293,000	100	Investment holding
Kaifeng Shi Bianlong Shangmao Company Limited ("Bianlong")	PRC	RMB3,000,000	100	Trading of coal

English names for identification purpose only.

18. GOODWILL – GROUP

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

	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 January	**224,207**	239,955
Impairment loss	**(16,811)**	(15,748)
Carrying amount at 31 December	**207,396**	224,207
Closing carrying amount		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(61,350)**	(44,539)
Net carrying amount at 31 December	**207,396**	224,207

Goodwill at 31 December 2009 and 2010 arose from the acquisitions of CIL and its subsidiaries (the "CIL Group") and represented the future economic benefits from the production and sales of coal.

At the time when the Group acquired its interest in the CIL Group, the mining license held by the CIL Group only had around a month to its expiry. The grant of a longer term mining license for the underlying mines held by the CIL Group had not been granted at the acquisition date. The mining license with around one month expiry held by the CIL Group would not in any way guarantee that the CIL Group would be able to obtain a longer term mining license. Due to uncertainty over the granting of a longer term mining license from the relevant local government authorities at that 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 the CIL Group acquired (not including a longer term mining license) was recognised as goodwill accordingly. Accordingly, any value attributable to the mining potential in the CIL Group 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, a 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$16.8 million (2009: HK$15.7 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 2010. 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 mining industry.

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

	2010	2009
Growth rate	**8.9% per annum**	8.8% per annum
Discount rate	**12.0% per annum**	9.1% 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

	2010	2009
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**673,372**	673,061
Accumulated amortisation	**(50,305)**	(32,120)
Net carrying amount	**623,067**	640,941
Net carrying amount at 1 January	**623,067**	640,941
Amortisation	**(17,636)**	(18,146)
Exchange difference	**24,703**	272
Net carrying amount at 31 December	**630,134**	623,067
At 31 December		
Gross carrying amount	**700,562**	673,372
Accumulated amortisation	**(70,428)**	(50,305)
Net carrying amount	**630,134**	623,067

19. MINING RIGHTS – GROUP (Continued)

At 31 December 2010, the remaining useful lives of mining rights held by the Group ranged from 0.5 to 12.0 years (2009: 1.5 to 13.0 years).

At 31 December 2010, certain mining rights with net carrying amount of approximately HK$490.6 million (2009: Nil) were pledged to secure bank loans of the Group (note 28).

20. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence	
	2010	2009
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**391**	368
Accumulated amortisation	**(353)**	(250)
Net carrying amount	**38**	118
Net carrying amount at 1 January	**38**	118
Additions	**503**	23
Amortisation	**(106)**	(103)
Exchange difference	**(1)**	–
Net carrying amount at 31 December	**434**	38
At 31 December		
Gross carrying amount	**911**	391
Accumulated amortisation	**(477)**	(353)
Net carrying amount	**434**	38

21. INTEREST IN JOINTLY CONTROLLED ENTITY – GROUP

	2010	2009
	HK$'000	*HK$'000*
Share of net assets	**90,525**	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 Co. Ltd.	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's assets, liabilities, income and expenses are as follows:

	2010 **HK$'000**	2009 HK$'000
Non-current assets	**26,025**	132
Current assets	**84,332**	90,835
Current liabilities	**(19,832)**	(9)
	90,525	90,958
Income	**1,267**	–
Expenses	**(5,240)**	(124)
Loss after income tax expenses attributable to the Group	**(3,973)**	(124)

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

22. INVENTORIES – GROUP

	2010 HK$'000	2009 HK$'000
Coal	**1,471**	20,946
Spare parts and consumables	**13,303**	12,761
	14,774	33,707

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 180 days (2009: 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:

	2010 HK$'000	2009 HK$'000
0 – 90 days	**467,022**	240,136
91 – 180 days	**136,251**	17,834
Over 180 days	**185,249**	–
	788,522	257,970
Less: Provision for impairment	**(11,345)**	–
	777,177	257,970

At 31 December 2010, accounts receivable of approximately HK$293.7 million (2009: approximately HK$180.0 million) were pledged to secure bank loans of the Group (note 28).

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

	2010 HK$'000	2009 HK$'000
Neither past due nor impaired	**603,273**	236,183
Past due of less than 3 months	**95,650**	21,787
Past due of more than 3 months but less than 6 months	**78,254**	–
	777,177	257,970

23. ACCOUNTS RECEIVABLE – GROUP (Continued)

Movement in the allowance for impairment of accounts receivable is as follows:

	2010 **HK$'000**	2009 *HK$'000*
At 1 January	–	–
Recognition of impairment loss for the year	**11,345**	–
At 31 December	**11,345**	–

At each reporting date, the Group reviews accounts receivable for evidence of impairment on an individual and collective bases. As at 31 December 2010, the Group determined accounts receivable of approximately HK$11.3 million as individually impaired (2009: Nil). Based on this assessment, impairment loss of approximately HK$11.3 million (2009: Nil) was recognised during the year.

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

Accounts receivable that were past due but not impaired related to 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. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2010 **HK$'000**	2009 *HK$'000*
Financial assets held for trading		
Unlisted quoted fund security in PRC	**23,644**	–

The fair value of the Group's investments in unlisted quoted fund security has been measured as described in note 39(h).

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

(a) Pledged bank deposits

The Group's bills payable amounting to approximately HK$82.7 million (equivalent to RMB70.0 million) (2009: approximately HK$284.0 million (equivalent to RMB250.0 million)) are secured by the pledge of the Group's time deposits of approximately HK$65.0 million (equivalent to RMB55.0 million) as at 31 December 2010 (2009: approximately HK$233.0 million (equivalent to RMB205.1 million)) (note 26). The effective interest rates of the pledged bank deposits ranged from 0.59% to 1.98% per annum (2009: 0.36% to 3.87% per annum). The pledged bank deposits have a maturity of 180 days (2009: 180 days).

(b) Cash and cash equivalents

As at 31 December 2010, included in cash and cash equivalents of the Group is approximately HK$116.7 million (2009: approximately HK$145.5 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.

26. ACCOUNTS AND BILLS PAYABLES – GROUP

	2010	2009
	HK$'000	*HK$'000*
Accounts payable	**40,056**	19,954
Bills payable	**82,740**	284,031
	122,796	303,985

The Group was granted by its suppliers' credit periods ranging from 30 – 90 days. Based on the invoice dates, ageing analysis of the Group's accounts payable at the reporting date is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 – 90 days	**37,822**	17,201
91 – 180 days	**214**	696
Over 180 days	**2,020**	2,057
	40,056	19,954

As at the reporting date, the Group's bills payable of approximately HK$82.7 million (2009: approximately HK$284.0 million) were secured by the pledged bank deposits (note 25(a)); bills payable of approximately HK$35.4 million (2009: approximately HK$85.2 million) were guaranteed by an independent third party and of approximately HK$35.4 million (2009: Nil) were co-guaranteed by an independent third party and a director of a major subsidiary of the Group.

27. PROVISION FOR RECLAMATION OBLIGATIONS – GROUP

	2010 HK$'000	2009 HK$'000
At 1 January	**14,106**	69,901
Provision made during the year	**25,529**	5,170
Provision used during the year	**(7,169)**	(21,040)
Provision reversed during the year	**–**	(39,957)
Exchange difference	**1,194**	32
At 31 December	**33,660**	14,106

The provision for land restoration, environmental 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.

28. BANK LOANS – GROUP

	2010 HK$'000	2009 HK$'000
Bank loans repayable within one year and classified as current liabilities	**325,485**	159,058
Analysed as follows:		
Secured	**242,745**	136,335
Unsecured	**82,740**	22,723
	325,485	159,058

At 31 December 2010, bank loans of approximately HK$242.8 million (2009: approximately HK$136.3 million) were secured by certain mining rights (note 19) and certain accounts receivable (note 23) (2009: secured by accounts receivable).

At 31 December 2010, bank loans of approximately HK$201.4 million were guaranteed by an independent third party (2009: approximately HK$79.5 million); bank loans of approximately HK$23.6 million was co-guaranteed by an independent third party and a director of a major subsidiary of the Group (2009: Nil); and bank loans of HK$23.6 million were under inter-company guarantee by a related party (2009: Nil) (note 37).

At 31 December 2010, all bank loans bear interest at fixed rates ranging from 4.47% to 11.52% per annum (2009: at fixed rates ranging from 4.37% to 5.83% per annum).

29. 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 bore 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. In 2009, the holder of CB1, Dragon Rich Resources Limited ("Dragon Rich"), a substantial shareholder and connected party of the Company, fully converted CB1 into ordinary shares of the Company.

On 16 November 2007, the Company issued a zero coupon convertible bonds ("CB2") to Dragon Rich with principal amount of HK$230,000,000 as settlement of the promissory notes issued by the Company. CB2 were issued with an initial conversion price of HK$1.1 per share and matured on 16 November 2010. The conversion price was subject to adjustment for consolidation, sub-division or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. 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 (note 31(d)). 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 (note 31(e)). 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 had the right to demand immediate repayment when the Company defaulted in the repayment of any of its loan indebtedness. On 10 December 2009, 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 and no demand for repayment was received from Dragon Rich and the CB2 was remained unsettled. On 29 November 2010, the Company and Dragon Rich entered into an agreement to waive all conversion rights of CB2 and to extend the maturity date for repayment of HK$195,000,000 to 31 December 2010. As a result of the waive of conversion rights of CB2, the Company derecognised CB2 of HK$195,000,000 and recognised the outstanding amount as loan from a shareholder on 29 November 2010. On 19 December 2010, the Company and Dragon Rich entered into a supplementary agreement to extend the maturity date of the loan to 31 December 2011.

29. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

On 10 December 2007, the Company issued a 2% coupon convertible bonds ("CB3") with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000). CB3 were issued with an initial conversion price of HK$1.8 per share and would mature on 10 December 2010. The conversion price was subject to adjustment for consolidation, sub-division or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. 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. Both the Company and the holders of CB3 had 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. The CB3 was secured by the Company's entire interest in CIL and Zhong Yue.

CB3 with principal amount of US$9,000,000 (equivalent to approximately HK$70,020,000) was converted by its holders during 2009. 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 HK$141,839,000 minus the compound derivative component of CB3 of HK$4,838,000) was recognised and charged to finance costs. As at 31 December 2009, the liability component of CB3 of HK$141,839,000 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 International (Group) Company Limited.

On 4 June 2010, the total outstanding amount of CB3 was settled including outstanding principal of US$16,000,000 (equivalent to approximately HK$124,480,000), redemption premium of approximately US$2,038,000 (equivalent to approximately HK$15,858,000), accrued interest of approximately US$316,000 (equivalent to approximately HK$2,455,000) and the related default interest of approximately US$256,000 (equivalent to approximately HK$2,065,000) amounting to approximately US$18,610,000 (equivalent to approximately HK$144,858,000).

29. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

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 issuance of zero coupon bonds ("CB4") in the maximum principal amount of HK$1,200,000,000. CB4 will be repayable after 3 years from the date of issuance or convertible into shares of the Company at the conversion price of HK$0.1 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues).

On 31 May 2010, the Company issued zero coupon bonds in the principal amount of HK$200,000,000 (the "First Tranche of CB4") mainly for the purpose of settlement of CB3. Partial of the First Tranche of CB4 with principal amount of HK$80,000,000 was converted by its holder on 7 June 2010. On 3 September 2010, the Company issued zero coupon bonds in the principal amount of HK$100,000,000 (the "Second Tranche of CB4").

The initial recognition of CB1, CB2, CB3 and CB4 in the consolidated statement of financial position are calculated as follows:

	CB1	**CB2**	**CB3**	**CB4**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue	20,000	230,000	194,500	300,000	744,500
Equity component	(4,582)	–	–	(42,426)	(47,008)
Compound derivative component on initial recognition	–	(163,162)	(53,794)	–	(216,956)
Liability component	15,418	66,838	140,706	257,574	480,536

29. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Movement of liability component for the years ended 31 December 2010 and 2009 is as follows:

			2010		
	CB1	**CB2**	**CB3**	**CB4**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January	**–**	**195,000**	**141,839**	**–**	**336,839**
Initial recognition upon issuance of bonds	**–**	**–**	**–**	**257,574**	**257,574**
Payment of interest	**–**	**–**	**(4,520)**	**–**	**(4,520)**
Payment of redemption premium	**–**	**–**	**(15,858)**	**–**	**(15,858)**
Interest expense	**–**	**–**	**1,210**	**4,616**	**5,826**
Conversion of convertible bonds *(note 31(b))*	**–**	**–**	**–**	**(68,462)**	**(68,462)**
Default interest expense	**–**	**–**	**1,809**	**–**	**1,809**
Amount redeemed	**–**	**–**	**(124,480)**	**–**	**(124,480)**
Derecognition upon the waive of conversion rights	**–**	**(195,000)**	**–**	**–**	**(195,000)**
At 31 December	**–**	**–**	**–**	**193,728**	**193,728**
Less: amount included under current liabilities	**–**	**–**	**–**	**–**	**–**
Amount included under non-current liabilities	**–**	**–**	**–**	**193,728**	**193,728**

			2009		
	CB1	CB2	CB3	CB4	Total
	HK$'000	*HK$'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(b))*	(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	–	–	–	–	–

29. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Movement of compound derivative component for the years ended 31 December 2010 and 2009 is as follows:

	2010			2009		
	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
Fair value loss	–	–	–	3,171	35,016	38,187
Conversion of convertible bonds *(note 31(b))*	–	–	–	–	(34,966)	(34,966)
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	–	–	–	–	–	–
Less: amount included under current liabilities	–	–	–	–	–	–
Amount included under non-current liabilities	–	–	–	–	–	–

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 the CB2 was calculated using the Binomial model. The fair value of the compound derivative components of CB3 was calculated using Binomial model, Hull-White model and Trinomial model. These valuation techniques are based on available observable market data. The major inputs used in the models as at 31 December 2009 were as follows:

	CB2	**CB3**
	31 December 2009	**10 December 2009 (Date of redemption)**
Stock price	HK$0.375	HK$0.395
Expected volatility	50.85%	55.26%
Risk free rate	0.21%	0.133%
Expected life	11 months	12 months

29. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Any changes in the major inputs into the models would 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, which was 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%, 20.80% and 5.36% and 4.93% to the liability components of CB1, CB2, CB3 and the First Tranche and the Second Tranche of CB4 respectively.

30. DEFERRED TAX – GROUP

The Group has taxable losses arising in Hong Kong of approximately HK$1.8 million (2009: approximately HK$1.7 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the unpredictability of future profits.

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

	Mining funds	**Amortisation allowance on mining rights in excess of related amortisation**	**Total**
	HK$'000 *(Note)*	*HK$'000*	*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
Charged to profit or loss *(note 9)*	2,618	957	3,575
Exchange difference	219	411	630
At 31 December 2010	**6,581**	**10,913**	**17,494**

Note: Pursuant to changes in certain regulations of the PRC government during the year ended 31 December 2009, the Group is required to set aside the mining funds (i.e. production maintenance fee and safety fund). The mining funds are deductible for tax 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.

30. DEFERRED TAX – GROUP (Continued)

As at 31 December 2010, deferred tax liabilities amounted to approximately HK$62.7 million (2009: approximately HK$51.8 million) in respect of the aggregate amount of temporary differences of approximately HK$627.0 million (2009: approximately HK$517.6 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

		2010		2009	
	Notes	***Number of shares***	***HK$'000***	*Number of shares*	*HK$'000*
Authorised:					
At 1 January, ordinary shares of HK$0.1 each		**3,000,000,000**	**300,000**	3,000,000,000	300,000
Increased in authorised ordinary shares	*(a)*	**27,000,000,000**	**2,700,000**	–	–
At 31 December, ordinary shares of HK$0.1 each		**30,000,000,000**	**3,000,000**	3,000,000,000	300,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.1 each		**2,118,130,674**	**211,813**	669,589,885	66,959
Conversion of convertible bonds for ordinary shares of HK$0.1 each	*(b)*	**800,000,000**	**80,000**	136,711,038	13,671
Exercise of share options for ordinary shares of HK$0.1 each	*(c)*	**–**	**–**	14,400,000	1,440
Issue of ordinary shares under bonus issue	*(d)*	**–**	**–**	591,386,193	59,139
Issue of ordinary shares under open offer	*(e)*	**–**	**–**	706,043,558	70,604
At 31 December, ordinary shares of HK$0.1 each		**2,918,130,674**	**291,813**	2,118,130,674	211,813

31. SHARE CAPITAL (Continued)

Notes:

(a) Pursuant to a special resolution passed on 27 May 2010, the authorised share capital of the Company was increased from HK$300 million divided into 3,000,000,000 ordinary shares to HK$3,000 million divided into 30,000,000,000 ordinary shares.

(b) In June 2010, 800,000,000 ordinary shares in aggregate were issued, at the conversion price of HK$0.1 per share, to the Subscriber upon the partial conversion of the First Tranche of CB4 (note 29). As a result, there was an increase in the share capital of approximately HK$68.5 million (excluding the amount that would be transferred from equity component of convertible bonds to share capital).

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 29). 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 bondholders upon the partial conversion of the CB3 with principal amount of US$9.0 million (equivalent to approximately HK$70.0 million) (note 29). 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.

(c) During 2009, 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 the 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.

(d) Pursuant to an ordinary resolution passed on 30 April 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"). 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.

(e) On 19 October 2009, the Company proposed to raise funds by way of open offer (the "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 approximately 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

2010

Name or category of participant	At 1 January 2010	Granted during the year	Exercised during the year *(note (i))*	Forfeited during the year	At 31 December 2010	Date of grant of share options *(note (ii))*	Exercise period of share options	Exercise price of share options *(note (iii))*
Directors								
Mr. Bao*	6,081,750	–	–	(6,081,750)	**–**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Wu	8,606,250	–	–	–	**8,606,250**	30 November 2006	30 November 2006 to 20 October 2014	HK$0.1547
	6,081,750	–	–	–	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Xu	6,081,750	–	–	–	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Li	1,275,000	–	–	–	**1,275,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	28,126,500	–	–	(6,081,750)	**22,044,750**			
Other employees								
In aggregate	27,973,500	–	–	(433,500)	**27,540,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	56,100,000	–	–	(6,515,250)	**49,584,750**			
Weighted average exercise price	HK$0.5313	–	–	HK$0.5223	**HK$0.5223**			

* resigned on 7 June 2010

32. SHARE OPTION SCHEME (Continued)

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

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

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 during the year ended 31 December 2009, 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 ended 31 December 2009 resulted in the issue of 14,400,000 ordinary shares of the Company (note 31(c)). No share options were exercised during the year ended 31 December 2010.

(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 2010 had a weighed average remaining contractual life of 3.8 years (2009: 4.8 years).

(b) Financial effect of the share options

No share options were granted during the years ended 31 December 2009 and 2010. At 31 December 2010, the Company had 49,584,750 (2009: 56,100,000) 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 49,584,750 (2009: 56,100,000) additional ordinary shares of the Company and additional share capital of approximately HK$5.0 million (2009: approximately HK$5.6 million) and share premium of approximately HK$20.9 million (2009: approximately HK$24.2 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 (2009: RMB8.5 per ton) 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, 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 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 and 1 January 2010	225,742	50	7,641	10,341	–	(117,791)	125,983
Share option forfeited	–	–	–	(1,952)	–	1,952	–
Issue of convertible bonds	–	–	–	–	42,426	–	42,426
Issue of ordinary shares on conversion of convertible bonds	59	–	–	–	(11,597)	–	(11,538)
Net loss for the year	–	–	–	–	–	(19,617)	(19,617)
At 31 December 2010	**225,801**	**50**	**7,641**	**8,389**	**30,829**	**(135,456)**	**137,254**

The contributed surplus of the Company arose as a result of the reorganisations 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.

34. ACQUISITION OF A SUBSIDIARY

On 7 July 2010, the Group acquired 100% entire paid-up capital of Bianlong, a company incorporated in the PRC, at a consideration of approximately HK$3.5 million (equivalent to RMB3.0 million). As at the date of acquisition, Bianlong was dormant. The directors therefore consider that Bianlong did not meet the definition of a business combination in HKFRS 3 (revised) at the acquisition date. Accordingly, the acquisition has been accounted for as an asset purchase.

Details of the net assets acquired are as follows:

	Net assets acquired *HK$'000*
Prepayments, deposits and other receivables	2,903
Cash and cash equivalents	556
Net assets attributable to the Group acquired	3,459
Total consideration satisfied by:	
Cash	3,459
Net cash outflow arising on acquisition:	
Cash consideration paid	3,459
Cash and cash equivalents acquired	(556)
	2,903

35. OPERATING LEASE COMMITMENTS

At 31 December 2010, 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:

	2010 ***HK$'000***	2009 *HK$'000*
Within one year	**508**	1,378
In the second to fifth years inclusive	**180**	1,965
After five years	**–**	4,808
	688	8,151

The Group leases certain properties under operating leases. The leases run for an initial period of one to seven 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 2010 (2009: Nil).

36. CAPITAL COMMITMENTS

At 31 December 2010, 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$16.4 million (2009: approximately HK$17.9 million).

The Company did not have any significant capital commitments at 31 December 2010 (2009: Nil).

37. FINANCIAL GUARANTEE CONTRACTS – GROUP

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 RMB100.0 million (equivalent to approximately HK$118.2 million). On 1 December 2010, a director of a major subsidiary of the Group became the director of the independent third party, and therefore the independent third party was considered to be a related party to the Group by the directors of the Company. As at 31 December 2010, bank loan of RMB20.0 million (equivalent to approximately HK$23.6 million) was granted to the related party, under which Jinfeng is liable to pay the bank if the bank is unable to recover the loan from the related party.

As at 31 December 2009, Jinfeng executed a guarantee with respect to a bank loan, denominated in RMB35.0 million (equivalent to approximately HK$39.8 million), granted to an independent third party, under which Jinfeng was liable to pay the bank if the bank was unable to recover the loan from the independent third party. The guarantee was expired after the loan was fully repaid during the year.

As at 31 December 2010, no provision for the Group's obligation (2009: Nil) 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.

38. RELATED PARTY TRANSACTIONS – GROUP

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

(a) Compensation of key management personnel

	2010 ***HK$'000***	2009 *HK$'000*
Total remuneration of key management during the year *(note 13)*	**6,294**	7,004

(b) 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. RELATED PARTY TRANSACTIONS – GROUP (Continued)

(c) Purchase of coal

During the year, the Group purchased coal of approximately HK$2.8 million (equivalent to approximately RMB2.4 million) from a subsidiary of the jointly controlled entity. The purchases were conducted in the Group's normal course of business. As at 31 December 2010, none of the accounts payable was due to the jointly controlled entity.

During the year, the Group purchased coal of approximately HK$26.0 million (equivalent to approximately RMB22.5 million) (2009: approximately HK$117.0 million (equivalent to approximately RMB103.2 million)) from a company, in which a director of a major subsidiary of the Group is a director of the company. The purchases were conducted in the Group's normal course of business. As at 31 December 2010, none of the deposits included in prepayments, deposits and other receivables was arising from the purchases of coal paid to the company. As at 31 December 2009, included in prepayments, deposits and other receivables were deposits amounted to approximately HK$1.0 million (equivalent to approximately RMB0.9 million) arising from the purchases of coal paid to the company.

During the period from 11 July 2010 to 31 December 2010, the Group purchased coal of approximately HK$1.3 million (equivalent to approximately RMB1.1 million) from a company, in which a director of a major subsidiary of the Group became a director of the holding company of this company on 11 July 2010. The purchases were conducted in the Group's normal course of business. As at 31 December 2010, none of the accounts payable was due to this company.

(d) Sales of coal

During the period from 11 July to 31 December 2010, the Group sold coal of approximately HK$228.5 million (equivalent to approximately RMB198.3 million) to a company, in which a director of a major subsidiary of the Group became a director of the holding company of this company on 11 July 2010. The sales were conducted in the Group's normal course of business. As at 31 December 2010, accounts receivable amounted to approximately HK$370.0 million (equivalent to approximately RMB313.0 million) arose from the sales of coal to this company. The accounts receivable from this company are non-interest bearing and unsecured. A credit period of 180 days was granted to this company.

(e) Sales of consumable tools

During the period from 1 December 2010 to 31 December 2010, the Group sold consumable tools of approximately HK$0.5 million (equivalent to approximately RMB0.4 million) to a company, in which a director of a major subsidiary of the Group is a director of this company. The sales were conducted in the Group's normal course of business. As at 31 December 2010, included in prepayments, deposits and other receivables are other receivables amounted to approximately HK$1.6 million (equivalent to approximately RMB1.3 million) arising from the sales of consumable tools to this company.

During the year, the Group sold consumable tools of approximately HK$19.1 million (equivalent to RMB16.6 million) (2009: approximately HK$9.7 million (equivalent to approximately RMB8.5 million)) to a company, in which a director of a major subsidiary of the Group is a director of the company. The sales were conducted in the Group's normal course of business. As at 31 December 2010, included in prepayments, deposits and other receivables are other receivables amounted to approximately HK$8.8 million (equivalent to approximately RMB7.5 million) (2009: approximately HK$3.3 million (equivalent to approximately RMB2.9 million)) arising from the sales of consumable tools to this company.

38. RELATED PARTY TRANSACTIONS – GROUP (Continued)

(f) Purchase of buildings

On 26 September 2008, the Group entered into an agreement in relation to the purchase of buildings with a company at a consideration of approximately HK$55.5 million (equivalent to approximately RMB47.0 million). A director of the Company was a shareholder and a director of this company at the date of agreement. The director of the Company ceased to be the shareholder and director of this company on 31 March 2010. As at 31 December 2010, the buildings are still under construction and have not yet been transferred to the Group. As at 31 December 2010, included in prepayment, deposits and other receivables are deposits amounted to approximately HK$51.4 million (equivalent to RMB43.5 million) (2009: approximately HK$49.4 million (equivalent to RMB43.5 million)) arising from the purchase of buildings from Henan Lianda. The remaining amount of approximately HK$4.1 million (equivalent to approximately RMB3.5 million) (2009: approximately HK$4.0 million (equivalent to approximately RMB3.5 million)) was included in the capital commitments of the Group as at 31 December 2010.

39. 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 Group has provided guarantee to a related party. Detailed disclosure of the guarantee is made in note 37.

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.

39. 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 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 and convertible bonds are disclosed in notes 28 and 29 respectively. 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 loss after tax and retained earnings to a possible change in interest rates of +/- 0.5% (2009:+/- 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	Retained earnings	Loss after tax	Retained earnings
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2010				
+0.5%	**621**	**621**	**(10)**	**10**
–0.5%	**(621)**	**(621)**	**10**	**(10)**
31 December 2009				
+0.5%	532	532	(46)	46
–0.5%	(532)	(532)	46	(46)

39. 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 2009 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. 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 liabilities were not disclosed because their carrying value is not materially different from their fair value. Derivative financial instruments are stated at fair value.

(e) Other price risk

Other price risk relates to the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices in respect of its investments in unlisted quoted fund security classified as financial assets at fair value through profit and loss.

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

(e) Other price risk (Continued)

To manage its market price risk arising from these investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limit set by the board of directors. The total investment is restricted to 5.0% of the Group's total assets.

For unlisted quoted fund security, an average volatility of 5.9% has been observed in 2010. If the quoted price for the Group's unlisted quoted fund security existing as at 31 December 2010 increased or decreased by that amount, profit or loss for the year and retained earnings would have increased or decreased by approximately HK$1.4 million in respect of unlisted quoted fund security classified as held for trading.

The assumed volatilities of unlisted securities represent management's assessment of a reasonably possible change in these security prices over the next twelve month period.

(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. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

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

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

(f) Liquidity risk (Continued)

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

	Group As at 31 December 2010						
	Past due HK$'000	Within 6 months or on demand HK$'000	6 – 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Discount HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Accounts and bills payables	–	122,796	–	–	122,796	–	122,796
Other payables and accruals	–	200,064	–	–	200,064	–	200,064
Bank loans	–	325,485	–	–	325,485	–	325,485
Convertible bonds	–	4,895	5,093	210,012	220,000	(26,272)	193,728
Loan from a shareholder	–	–	195,000	–	195,000	–	195,000
Total	–	653,240	200,093	210,012	1,063,345	(26,272)	1,037,073
Financial guarantee issued							
Maximum amount guaranteed	–	23,600	–	–	23,600	–	23,600

	Group As at 31 December 2009						
	Past due HK$'000	Within 6 months or on demand HK$'000	6 – 12 months HK$'000	Over 1 year HK$'000	Total undiscounted amount HK$'000	Discount HK$'000	Carrying amount 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
Financial guarantee issued							
Maximum amount guaranteed	–	39,800	–	–	39,800	–	39,800

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

(f) Liquidity risk (Continued)

	Company As at 31 December 2010						
	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	–	4,404	–	–	4,404	–	4,404
Convertible bonds	–	4,895	5,093	210,012	220,000	(26,272)	193,728
Loan from a shareholder	–	–	195,000	–	195,000	–	195,000
Total	–	9,299	200,093	210,012	419,404	(26,272)	393,132

	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

39. 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 2009 and 2010 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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Financial assets at fair value through profit and loss				
– Unlisted quoted fund security held for trading	**23,644**	–	**–**	–
Loans and receivable				
– Accounts receivable	**777,177**	257,970	**–**	–
– Deposits and other receivables	**187,961**	135,660	**–**	1,331
– Pledged bank deposits	**65,010**	232,967	**–**	–
– Cash and cash equivalents	**173,823**	159,067	**1,941**	9,156
	1,227,615	785,664	**1,941**	10,487
Financial liabilities				
Financial liabilities measured at amortised cost				
– Accounts and bills payables	**122,796**	303,985	**–**	–
– Other payables and accruals	**200,064**	66,134	**4,404**	4,766
– Bank loans	**325,485**	159,058	**–**	–
– Convertible bonds	**193,728**	336,839	**193,728**	336,839
– Loan from a shareholder	**195,000**	–	**195,000**	–
	1,037,073	866,016	**393,132**	341,605

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

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

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.

The financial assets measured at fair value in the statement of financial position are grouped into fair value hierarchy as follows:

	2010 – Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at fair value through profit or loss				
– Unlisted quoted fund security in PRC	**23,644**	**–**	**–**	**23,644**

	2009 – Group			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
– Unlisted quoted fund security in PRC	–	–	–	–

As at 31 December 2009 and 2010, the Company had no financial assets and liabilities were measured at fair value.

(i) Business risk

The Group's primary businesses are the production and sales of coal in the 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 the PRC.

40. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

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

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity of approximately HK$1,367.5 million (2009: approximately HK$1,107.8 million) as capital, for capital management purpose.

41. SUBSEQUENT EVENTS

(a) On 7 January 2011 and 11 January 2011, the Company issued the third tranche of CB4 in the principal amount of HK$100 million and the fourth tranche of CB4 in the principal amount of HK$100 million respectively mainly for the settlement of loan from a shareholder. As a result, there was an increase in the liability component and equity component of convertible bonds of approximately HK$176.7 million and approximately HK$23.3 million respectively.

The conversion in full of the third tranche and the fourth tranche of CB4 would, under the capital structure of the Company as at 31 December 2010, result in the issue of 2,000,000,000 additional ordinary shares of the Company.

(b) On 18 January 2011, the Group acquired 100% of the issued ordinary shares of CFT Henan (HK) Limited ("CFT"), a company incorporated in Hong Kong, at a consideration of HK$990,000, from a company to develop in a coalbed methane business ("CBM"). At the acquisition date, two directors of the Company were also the directors of CFT. Because the Group holds 100% of CFT's issued ordinary shares, the Group has control over CFT through nominating members to the board of directors of CFT. CFT is an investment company which has controlling interest in Henan Huanglong New Energy Development Company Limited which is principally engaged in CBM management. The Group is in the process of assessing the fair values of the acquiree's identifiable assets and liabilities recognised at the acquisition date; therefore the financial effects of the acquisition are not presented.

41. SUBSEQUENT EVENTS (Continued)

(c) On 28 January 2011, the Company announced that it received a conditional conversion notice from the Subscriber, stating that the Subscriber shall, subject to the conversion conditions, exercise its right under the Subscription Agreement, to convert the CB4 into the shares of the Company in the principal amount of HK$420,000,000 at the conversion price of HK$0.1.

According to the terms and conditions of the CB4, a holder of CB4 may only exercise its conversion rights if the public float of the Company's shares of not less than 25% (or such lower percentage allowable under the Listing Rules) can be maintained. As the shares of the Company held by Dragon Rich, Mr. Bao, Mr. Li and Mr. Xu shall not be considered as in the public hands under the Listing Rules, the maximum amount of CB4 that may be converted is HK$360,000,000 and the maximum number of shares of the Company the Subscriber can convert pursuant to the conditional conversion notice will be 3,600,000,000 shares. The Subscriber agreed to only convert the CB4 in the principal amount of HK$360,000,000.

One of the conversion conditions is the grant of a waiver from the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Whitewash Waiver") in respect of the obligation of the Subscriber to make a mandatory general offer to shareholders of the Company for all the issued shares of HK$0.1 each of the Company not already owned or agreed to be acquired by the Subscriber as a result of the Subscriber converting the CB4 under the Subscription Agreement in respect of 3,600,000,000 shares. The grant of the Whitewash Waiver is subject to approval by independent shareholders by way of poll at a special general meeting under Note 1 of the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers. Pursuant to an ordinary resolution passed in a special general meeting held on 21 March 2011, the independent shareholders approved the Whitewash Waiver. Accordingly, 3,600,000,000 shares have been issued, at the conversion price of HK$0.1, to the Subscriber upon the conversion of the CB4 with principal amount of HK$360,000,000. As a result, there was an increase in share capital and share premium of approximately HK$360.0 million and HK$7.7 million respectively.