Executive Directors' Statement

BUSINESS REVIEW

In last year, our turnover recorded approximately HK$10.5 million, which was attributable to coal trades of approximately HK$9.5 million and jewellery sales of approximately HK$1 million. The two coke plants were still in construction works but with significant progress and they are expected to start production within this year. However, as the plants were in the construction phase, together with the granting of the share option during the year resulting in additional expense of approximately HK$13 million incurred according to the accounting standard; the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK$31 million for year 2006.

In April this year, the Company issued 230 million new shares through private placement and 5-year convertible notes with the principal amount of HK$300 million for cash. The placing price was HK$2.00 per share and initial conversion price was HK$2.33 per share; the net proceed would be amounted to approximately HK$720 million. We plan to use approximately HK$150 million for investing into two existing coke plants, HK$200 million retained within the group as working capital (including repayment of short term loans) and the rest of approximately HK$370 million will be used for future coalmine investments to enhance our long term competitiveness in the energy sector.

As the Group has been focusing most of our effort in coal investments for years and gaining progress, the management has made the decision to cease the jewellery sales business after year 2006 in order to maximize the best interests for the Company and sales clearance of jewellery was completed on 28 February 2007. With the successfulness of fund raising from the market, the financial position of the Group has returned to a health position as it strengthened the capital base of the Company.

FINANCIAL POSITION

Material acquisitions and disposals

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

Charges on Assets

At 31 December 2006, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2006, the Group had borrowed an amount of RMB50,000,000 (equivalent to approximately HK$49,963,000) from a third party (the "Lender"). The Lender in turn had borrowed the same amount from a financial institution. As part of this funding arrangement, the Group and two subsidiaries of a minority equity holder of the Group have given joint and several guarantees for the amount borrowed by the Lender to the financial institution. Save as disclosed above, there was no other guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

At 31 December 2006, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by shareholders' funds, was approximately 620%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC and payment for deposits for a potential mining project. Subsequent to the balance sheet date on 2 April 2007, the Company issued new shares of 230,000,000 at HK$2.00 to independent investors resulting in the gearing ratio of the Group substantially decreased to 72%.

Exposure To Fluctuations In Exchange Rates

At 31 December 2006, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Executive Directors' Statement

FINANCIAL POSITION *(cont'd)*

Liquidity and Financial Resources

At 31 December 2006, the Group's current ratio (current assets divided by current liabilities) was approximately 0.1 and the Group's cash and bank deposits amounted to HK$10,573,000. Upon the completion of the Placing Agreement and Subscription Agreement in April 2007, the aggregate net proceed of approximately HK$720,000,000 substantially increased the balance of the Group's cash and bank deposits.

Staff

The Group had 7 Hong Kong employees and 275 PRC employees at 31 December 2006 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees (Note 3(s) to the financial statements). The Group has also adopted share option scheme since 20 June 2003 (Note 3(r) and Note 34 to the financial statements). Details of share options being granted under the share option scheme during the year are set out in the section "SHARE OPTION SCHEME" of Directors' Report.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2006.

FUTURE PROSPECTS

The global economy is expected to be broadly favorable as inflation will ease and interest rates will remain steady through the year. With the continue growth of economy, China maintains the defined policies in supporting the sizable companies investing into coal related industries to promote operation with environmental and safety concerns as well as improvement of resource utilization. Through the share placing and issue of convertible notes, we currently have adequate funding and are assessing the possibility to increase our share equity interest in the PRC joint-venture "Jinshan" for future profit expansion. In respect of coalmine operation, we have made progress in obtaining significant documents and permits from the relevant government authorities. We will speed up the coalmine application process and hopefully to obtain the mining rights shortly to enhance ourselves on the integration of business downstream into coal mining to ensure stable and quality supply of raw coal.

As the two coke plants will deliver production within the year, this will definitely help to strengthen the recurring income base of the Group. Since the management has made the decision for the cessation of the jewellery sales business, sales clearance of jewellery was completed on 28 February 2007. Thereafter, we can focus all our resources and effort in the energy sector development.

We are, with capabilities and enthusiasm, strongly believing that once our plants start production together with the possible mining rights obtained, both our revenue and profit growth will take place with a significant rise in the coming years and will bring in attractive returns to our shareholders.

APPRECIATION

On behalf of the Company, I would express our thanks to our fellow Directors and the colleagues for their dedication and continuous efforts in the development of the core business of the Group in energy sector, and most importantly, making it happened.

SO Kwok Hoo
Executive Director

Hong Kong, 23 April 2007