



合動能源

Dynamic Energy Holdings Limited

合動能源控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 578)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

FINANCIAL HIGHLIGHTS

- Turnover was approximately HK\$564.8 million
- Profit after tax from continuing operations was approximately HK\$149.5 million
- Net profit attributable to equity holders of the Company was approximately HK\$134.2 million
- Basic earnings per share were 21.679 HK cents

The board of directors (the “Board”) of Dynamic Energy Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Continuing operations:			
Revenue	4	564,757	102,599
Cost of sales		(282,644)	(52,784)
Gross profit		282,113	49,815
Other income	4	31,035	1,766
Selling expenses		(3,466)	(1,527)
Administrative expenses		(77,548)	(15,733)
Other operating expenses		(51,322)	(34)
Gain/(Loss) on disposal of subsidiaries		18,075	(2,336)
Operating profit		198,887	31,951
Change in fair value of compound derivative financial instruments		58,150	–
Finance costs	6	(35,628)	(6,261)
Profit before income tax	7	221,409	25,690
Income tax expense	8	(71,945)	(16,240)
Profit after tax from continuing operations		149,464	9,450
Discontinued operations:			
Profit/(Loss) for the year from discontinued operations		813	(88,584)
Profit/(Loss) for the year		150,277	(79,134)
Attributable to:			
Equity holders of the Company	9	134,195	(82,683)
Minority interests		16,082	3,549
Profit/(Loss) for the year		150,277	(79,134)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– Basic (<i>HK cents</i>)			
From continuing and discontinued operations		21.679	(20.710)
From continuing operations		21.621	1.554
– Diluted (<i>HK cents</i>)			
From continuing and discontinued operations		11.265	N/A
From continuing operations		11.217	1.551

CONSOLIDATED BALANCE SHEET*as at 31 December 2007*

	<i>Notes</i>	2007 HK\$'000	2006 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		144,040	37,338
Prepaid lease payments		1,310	1,477
Goodwill		251,575	268,746
Mining rights		603,869	24,962
Other intangible assets		215	60
		1,001,009	332,583
Current assets			
Inventories		19,273	1,942
Account receivable	<i>11</i>	84,145	58,448
Prepayments, deposits and other receivables		83,834	185,384
Cash and cash equivalents		115,180	30,683
		302,432	276,457
Assets classified as held for sale		–	298,985
		302,432	575,442
Current liabilities			
Account payable	<i>12</i>	14,596	3,073
Other payables and accruals		112,900	68,226
Provision for tax		52,793	41,542
Bank loans		83,737	46,000
		264,026	158,841
Liabilities associated with assets classified as held for sale		–	168,110
		264,026	326,951
Net current assets		38,406	248,491
Total assets less current liabilities		1,039,415	581,074

	<i>Notes</i>	2007 HK\$'000	2006 HK\$'000
Non-current liabilities			
Compound derivative financial instruments	<i>13</i>	158,806	–
Other payables		251,950	–
Convertible bonds	<i>13</i>	230,445	15,701
Promissory notes		–	272,747
		641,201	288,448
Net assets		398,214	292,626
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	<i>16</i>	66,686	108,173
Reserves		296,802	74,373
		363,488	182,546
Minority interests		34,726	110,080
Total equity		398,214	292,626

Notes:

1. BASIS OF PREPARATION

This financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

2. QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In the auditor’s opinion, except for any adjustments that might have been found to be necessary had the auditors been able to obtain sufficient evidence concerning the financial information of the Royce Group Limited and its subsidiaries (collectively referred to as the “RGL Group”) before its disposal during the year, the consolidated financial statements give a true and fair view of the state of the Company’s and the Group’s affairs as at 31 December 2007 and of the Group’s profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

3. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2007, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2007 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group’s accounting policies but gave rise to additional disclosures. The specific transitional provisions contained in some of these new or amended HKFRSs have been considered.

The adoption of these new and amended HKFRSs did not result in any significant changes in the Company’s accounting policies.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Revised)	“Presentation of Financial Statements” ¹
HKAS 23 (Revised)	“Borrowing Costs” ¹
HKAS 27 (Amended)	“Consolidated and Separate Financial Statements” ²
HKFRS 2 (Amendment)	“Share-based Payment” ¹
HKFRS 3 (Revised)	“Business Combinations” ²
HKFRS 8	“Operating Segments” ¹
HK(IFRIC)-Int 11	HKFRS 2: “Group and Treasury Share Transactions” ³
HK(IFRIC)-Int 12	“Service Concession Arrangements” ⁴
HK(IFRIC)-Int 13	“Customer Loyalty Programmes” ⁵
HK(IFRIC)-Int 14	HKAS 19: “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 March 2007

⁴ Effective for annual periods beginning on or after 1 January 2008

⁵ Effective for annual periods beginning on or after 1 July 2008

4. REVENUE AND OTHER INCOME

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

Revenue, which is also the Group's turnover, represents the sale of coal and electricity, net of value added tax, for the year. Turnover and other income recognised during the year are as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue						
Sale of coal	564,757	102,599	–	–	564,757	102,599
Sale of electricity	–	–	58,925	159,936	58,925	159,936
	<u>564,757</u>	<u>102,599</u>	<u>58,925</u>	<u>159,936</u>	<u>623,682</u>	<u>262,535</u>
Other income						
Interest income	4,677	1,672	27	1,099	4,704	2,771
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs	21,983	–	–	–	21,983	–
Others	4,375	94	–	990	4,375	1,084
	<u>31,035</u>	<u>1,766</u>	<u>27</u>	<u>2,089</u>	<u>31,062</u>	<u>3,855</u>

5. SEGMENT INFORMATION

(a) Business segments

	Continuing operations						Discontinued operations		Consolidated	
	Production and sale of coal		Others		Total		Generation and sale of electricity			
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Segment revenue:										
Sales to customers	564,757	102,599	-	-	564,757	102,599	58,925	159,936	623,682	262,535
Segment results	200,843	44,740	(20,031)	(10,453)	180,812	34,287	13,049	3,487	193,861	37,774
Gain/(Loss) on disposal of subsidiaries	-	-	18,075	(2,336)	18,075	(2,336)	-	27,757	18,075	25,421
Operating profit/(loss)	200,843	44,740	(1,956)	(12,789)	198,887	31,951	13,049	31,244	211,936	63,195
Change in fair value of derivative financial instruments	-	-	58,150	-	58,150	-	-	-	58,150	-
Finance costs	(9,562)	(1,015)	(26,066)	(5,246)	(35,628)	(6,261)	(2,652)	(7,892)	(38,280)	(14,153)
Profit/(Loss) before income tax	191,281	43,725	30,128	(18,035)	221,409	25,690	10,397	23,352	231,806	49,042
Income tax expenses	(71,945)	(16,240)	-	-	(71,945)	(16,240)	(354)	(892)	(72,299)	(17,132)
	119,336	27,485	30,128	(18,035)	149,464	9,450	10,043	22,460	159,507	31,910
Loss on remeasurement to fair value less costs to sell	-	-	-	-	-	-	(9,230)	(111,044)	(9,230)	(111,044)
Profit/(Loss) for the year	119,336	27,485	30,128	(18,035)	149,464	9,450	813	(88,584)	150,277	(79,134)
Segment assets	973,830	597,391	329,611	11,649	1,303,441	609,040	-	298,985	1,303,441	908,025
Segment liabilities	368,481	70,146	10,965	1,153	379,446	71,299	-	168,110	379,446	239,409
Unallocated liabilities	-	-	-	-	525,781	375,990	-	-	525,781	375,990
Total liabilities	368,481	70,146	10,965	1,153	905,227	447,289	-	168,110	905,227	615,399
Depreciation	7,470	228	32	384	7,502	612	-	21,688	7,502	22,300
Amortisation of prepaid lease payments	258	42	-	-	258	42	-	483	258	525
Amortisation of mining rights	11,005	251	-	-	11,005	251	-	-	11,005	251
Capital expenditure – addition of property, plant and equipment, prepaid lease payments, mining rights and other intangible assets	72,414	2,163	157	17	72,571	2,180	-	1,820	72,571	4,000
Change in fair value of compound derivative financial instruments	-	-	58,150	-	58,150	-	-	-	58,150	-
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs	-	-	21,983	-	21,983	-	-	-	21,983	-
Impairment loss on goodwill	17,171	-	-	-	17,171	-	-	-	17,171	-
Impairment loss on other receivables	17,130	-	-	-	17,130	-	-	-	17,130	-

(b) Geographical segments

A geographical analysis of the Group's revenue, certain asset and expenditure information is not presented as the Group's revenue, results and assets in geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

6. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest charge on bank loans						
– wholly repayable						
within five years	9,562	1,082	2,652	7,892	12,214	8,974
Effective interest expenses						
on convertible bonds	7,400	283	–	–	7,400	283
Effective interest expenses						
on promissory notes	18,666	4,896	–	–	18,666	4,896
	<u>35,628</u>	<u>6,261</u>	<u>2,652</u>	<u>7,892</u>	<u>38,280</u>	<u>14,153</u>

7. PROFIT BEFORE INCOME TAX

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

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	272,223	50,338	42,303	143,147	314,526	193,485
Auditors' remuneration	843	600	–	–	843	600
Depreciation	7,502	612	–	21,688	7,502	22,300
Operating lease charges						
on land and buildings	1,050	180	–	573	1,050	753
Amortisation of prepaid						
lease payment	258	42	–	483	258	525
Amortisation of mining rights	11,005	251	–	–	11,005	251
Amortisation of intangible assets	94	–	–	–	94	–
Employee benefit expenses						
(including directors' remuneration and retirement benefit scheme contributions)	93,681	19,894	5,079	14,500	98,760	34,394
Loss on remeasurement to						
fair value less costs to sell	–	–	9,230	111,044	9,230	111,044
Loss on disposals of property, plant and equipment	2,155	18	–	85	2,155	103
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over costs	(21,983)	–	–	–	(21,983)	–
Impairment loss on goodwill	17,171	–	–	–	17,171	–
Impairment loss on other receivables	17,130	–	–	–	17,130	–
Change in fair values of compound derivative financial instruments	58,150	–	–	–	58,150	–
Loss associated with refinancing	18,659	–	–	–	18,659	–

8. 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 (2006: Nil).

Income tax arising from the PRC is calculated at 33% (2006: 33%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC.

The Company did not have any significant unprovided deferred tax liabilities at the balance sheet date (2006: Nil).

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax						
– PRC income tax	<u>71,945</u>	<u>16,240</u>	<u>354</u>	<u>892</u>	<u>72,299</u>	<u>17,132</u>

9. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of approximately HK\$134.2 million (2006: loss of approximately HK\$82.7 million), a profit of approximately HK\$31.8 million (2006: loss of approximately HK\$151.2 million) has been dealt with in the financial statements of the Company.

10. EARNINGS/(LOSS) PER SHARE

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

	2007	2006
	HK\$'000	HK\$'000
<u>Profit/(Loss)</u>		
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per share	134,195	(82,683)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	7,400	283
Change in fair value of compound derivative financial instruments	<u>(58,150)</u>	<u>–</u>
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of diluted earnings/(loss) per share	<u>83,445</u>	<u>(82,400)</u>
	2007	2006
	'000	'000
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	619,023	399,246
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	31,714	743
Convertible bonds	<u>90,007</u>	<u>10,803</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>740,744</u>	<u>410,792</u>

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

No diluted loss per share attributable to the equity holders of the Company was presented for the year ended 31 December 2006 as the potential ordinary shares have anti-dilutive effect.

From continuing operations

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit/(Loss) for the year attributable to the equity holders of the Company for the purpose of basic earnings/(loss) per share	134,195	(82,683)
Profit/(Loss) for the year from discontinued operations	813	(88,584)
Less: Profit for the year attributable to minority interests from discontinued operations	454	304
Profit/(Loss) for the year attributable to the equity holders of the Company from discontinued operations	359	(88,888)
Profit for the year attributable to the equity holders of the Company for the purpose of basic earnings per share from continuing operations	133,836	6,205
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	7,400	283
Change in fair value of compound derivative financial instruments	(58,150)	–
Profit for the purpose of diluted earnings per share attributable to the equity holders of the Company from continuing operations	83,086	6,488

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

In calculating the diluted earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2006, the potential issue of shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity holders of the Company from continuing operations and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2006 is based on the profit attributable to the equity holders of the Company from continuing operations of approximately HK\$6.2 million and on the weighted average of 399,989,000 ordinary shares outstanding during the year ended 31 December 2006, being the weighted average number of 399,246,000 ordinary shares used in basic earnings per share calculation and adjusted for the effect of the share options of 743,000 shares.

From discontinued operations

Basic earnings per share attributable to the equity holders of the Company for the discontinued operations is HK\$0.06 cents per share (2006: loss of HK\$22.26 cents per share), based on the profit for the year attributable to the equity holders of the Company from discontinued operations of approximately HK\$0.4 million (2006: loss of approximately HK\$88.9 million) and the denominators detailed above.

The diluted earnings per share attributable to the equity holders of the Company from discontinued operations for the year ended 31 December 2007 is HK\$0.05 cents per share, based on the profit attributable to the equity holders of the Company of approximately HK\$0.4 million and on the weighted average of 740,744,000 ordinary shares outstanding during the year,

No diluted loss per share attributable to the equity holders of the Company from discontinued operations is presented for the year ended 31 December 2006 as the potential ordinary shares have anti-dilutive impact.

11. ACCOUNT RECEIVABLE

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current – 90 days	<u>84,145</u>	<u>58,448</u>

12. ACCOUNT PAYABLE

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current – 90 days	12,908	3,073
91 – 180 days	1,112	–
Over 180 days	<u>576</u>	<u>–</u>
	<u>14,596</u>	<u>3,073</u>

13. CONVERTIBLE BONDS

On 24 October 2006, the Company issued convertible bonds ("CB1") in the principal amount of HK\$20,000,000 as part of the consideration for the acquisition of Clear Interest Limited ("CIL"). CB1 bear interest at 1% per annum with maturity date of 3 years from the date of issuance and are repayable after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$0.35 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues) at any time after the second anniversary from the date of issuance.

On 16 November 2007, the Company issued a zero coupon convertible bonds ("CB2") with principal amount of HK\$230,000,000 as for the settlement of promissory notes issued by the Company. CB2 were issued with a conversion price of HK\$1.1 per share and will mature on 16 November 2010. The conversion price is subject to adjustment for consolidations, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. Details of issuance of CB2 were disclosed in the Company's circular dated 9 October 2007.

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 a conversion price of HK\$1.8 per share and will mature on 10 December 2010. The conversion price is subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. Details of issuance of CB3 were disclosed in the Company's announcement dated 6 December 2007.

The fair value of the liability component, included in the convertible bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount of CB1, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

The fair value of compound derivative components of CB2 and CB3, consisting of the conversion option and the redemption options, was calculated using financial models. The residual amounts of CB2 and CB3 represent liability component. The compound derivative components of CB2 and CB3 are carried at fair value on the balance sheet, with any changes in fair value being charged or credited to the income statement in the period when change occurs.

The convertible bonds recognised in the balance sheet are calculated as follows:

	2007				2006
	CB1 <i>HK\$'000</i>	CB2 <i>HK\$'000</i>	CB3 <i>HK\$'000</i>	Total <i>HK\$'000</i>	Total <i>HK\$'000</i>
Proceeds of issue	20,000	230,000	194,500	444,500	20,000
Equity component	(4,582)	–	–	(4,582)	(4,582)
Derivative component on initial recognition	–	(163,162)	(53,794)	(216,956)	–
Liability component on initial recognition	15,418	66,838	140,706	222,962	15,418
Accumulated payment of interest	(200)	–	–	(200)	–
Accumulated interest expenses	1,889	4,189	1,605	7,683	283
Liability component at 31 December	<u>17,107</u>	<u>71,027</u>	<u>142,311</u>	<u>230,445</u>	<u>15,701</u>

Compound derivative financial instrument – classified as long-term liabilities

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Initial recognition upon issuance of bonds	216,956	–
Fair value gain	(58,150)	–
At 31 December	<u>158,806</u>	<u>–</u>

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

14. BUSINESS COMBINATIONS

- (i) On 17 May 2007, the Group acquired 100% entire paid-up capital in Xingyun Coal Industry Company Limited (“Xingyun Coal”), a company incorporated in the PRC, at a consideration of RMB140 million (equivalent to HK\$142.7 million) through Jinfeng Industrial and Trading Company Limited (“Jinfeng”), a 90% indirectly-owned subsidiary of the Company. As at the date of acquisition, Xingyun Coal was principally engaged in the production and sale of coal.

Details of the net assets of Xingyun Coal acquired and excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over costs are as follows:

	2007 HK\$’000
Fair value of net assets acquired	147,333
Total consideration	(142,688)
Excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over costs	<u>4,645</u>

The assets and liabilities arising from the acquisition are as follows:

	Fair value <i>HK\$’000</i>	Acquiree’s carrying amount <i>HK\$’000</i>
Property, plant and equipment	16,821	16,821
Mining rights	129,744	145,949
Inventories	768	768
Net assets acquired	<u>147,333</u>	<u>163,538</u>
Total consideration satisfied by:		
Cash		<u>142,688</u>
Net cash outflow on acquisition:		
Cash consideration paid		<u>142,688</u>

- (ii) On 25 July 2007, the Group acquired 100% entire paid-up capital in Xiangyang Coal Industry Company Limited (“Xiangyang Coal”), a company incorporated in the PRC, at a consideration of RMB450 million (equivalent to HK\$466.0 million) through Shenzhen Zhongzhou Energy Company Limited, a wholly-owned subsidiary of Jinfeng which is in turn 90% owned by the Company. As at the date of acquisition, Xiangyang Coal was principally engaged in the production and sale of coal.

Details of the net assets of Xiangyang Coal acquired and excess of acquirer’s interest in the fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over costs are as follows:

	2007 HK\$’000
Fair value of net assets acquired	483,277
Total consideration	(465,939)
Excess of acquirer’s interest in the fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over costs	<u>17,338</u>

The assets and liabilities arising from the acquisition are as follows:

	Fair value <i>HK\$’000</i>	Acquiree’s carrying amount <i>HK\$’000</i>
Property, plant and equipment	40,747	40,747
Mining rights	424,522	–
Inventories	7,097	7,097
Account receivable	3,363	3,363
Prepayments, deposits and other receivables	7,067	7,067
Cash and bank balances	9,821	9,821
Account payable	(3,263)	(3,263)
Other payables and accruals	(5,836)	(5,836)
Provision for tax	(241)	(241)
Net assets acquired	<u>483,277</u>	<u>58,755</u>
Total consideration satisfied by:		
Cash		<u>465,939</u>
Net cash outflow on acquisition:		
Cash consideration paid		221,691
Cash and cash equivalents acquired		<u>(9,821)</u>
		<u>211,870</u>

15. DISPOSAL OF SUBSIDIARIES

On 8 February 2007, the Company entered into an agreement with Whole Gain International Limited (“Whole Gain”), a company incorporated in the British Virgin Islands with limited liability and is an investment holding company. Pursuant to which the Company has agreed to sell, and Whole Gain has agreed to purchase the Company’s entire equity interest of the issued share capital of Royce Group Limited (“RGL”) at a consideration of approximately HK\$39.1 million. The disposal was completed in May 2007.

	2007 HK\$'000
Net assets disposed of:	
Property, plant and equipment	178,693
Prepaid lease payments	4,331
Inventories	15,286
Account receivable	25,234
Prepayments, deposits and other receivables	23,065
Cash and cash equivalents	10,740
Account payable	(2,395)
Other payables and accruals	(10,512)
Amount due to a director	(1,480)
Loans from minority shareholders	(16,435)
Provision for tax	(638)
Bank loans	(94,200)
Minority interest	(93,387)
	<hr/>
	38,302
Release of exchange fluctuation reserve upon disposal	(12,435)
Release of statutory reserve fund upon disposal	(4,842)
Gain on disposal of subsidiaries	18,075
	<hr/>
Total consideration	39,100
	<hr/> <hr/>
Satisfied by:	
Cash	39,100
	<hr/> <hr/>

16. SHARE CAPITAL

	Notes	2007		2006	
		Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:					
As at 1 January, ordinary shares of HK\$0.2 each (2006: HK\$0.2 each)		1,000,000,000	200,000	1,000,000,000	200,000
Sub-division of ordinary shares to HK\$0.1 each	(d)(iii)	1,000,000,000	–	–	–
Increased in authorised ordinary shares	(d)(iv)	1,000,000,000	100,000	–	–
		<u>3,000,000,000</u>	<u>300,000</u>	<u>1,000,000,000</u>	<u>200,000</u>
As 31 December, ordinary shares of HK\$0.1 each (2006: HK\$0.2 each)					
		<u>3,000,000,000</u>	<u>300,000</u>	<u>1,000,000,000</u>	<u>200,000</u>
Issued and fully paid:					
At 1 January, ordinary shares of HK\$0.2 each (2006: HK\$0.2 each)		540,862,614	108,173	375,862,614	75,173
Issue of ordinary shares for acquisition of CIL	(a)	–	–	90,000,000	18,000
Placement of new ordinary shares of HK\$0.2 each (2006: HK\$0.20 each)	(b)	100,000,000	20,000	75,000,000	15,000
Exercise of share options for new ordinary shares of HK\$0.2 each	(c)	500,000	100	–	–
Capital reorganisation	(d)(i)	–	(64,137)	–	–
Exercise of share options for new ordinary shares of HK\$0.1 each	(c)	25,500,000	2,550	–	–
		<u>666,862,614</u>	<u>66,686</u>	<u>540,862,614</u>	<u>108,173</u>

Notes:

- (a) The Company issued 90,000,000 ordinary shares of HK\$0.20 each on 24 October 2006 to the original shareholders of CIL as part of the purchase consideration of CIL. The fair value of the shares issued at the date of acquisition amounted to HK\$23.0 million (HK\$0.255 per share).
- (b) Pursuant to an ordinary resolution, 100,000,000 new ordinary shares of HK\$0.2 each (2006: 75,000,000 new ordinary shares of HK\$0.2 each) were issued at HK\$0.38 per share (2006: HK\$0.22 per share) for cash for the working capital of the Group to support its ongoing operations during the year. The related share issue expenses of HK\$0.09 million were dealt with in the share premium account.
- (c) During the year, 500,000 and 25,500,000 share options were exercised at the subscription price of HK\$0.355 per share, giving rise to the issue of 500,000 new ordinary shares of HK\$0.2 each and 25,500,000 new ordinary shares of HK\$0.1 each respectively. Accordingly, additional share capital of approximately HK\$2.7 million and share premium of approximately HK\$6.6 million, before the amount transferred from share option reserve, is resulted.
- (d) Pursuant to a special resolution passed on 1 November 2007, the capital reorganisation was approved in the following manner (i) the nominal value of issued ordinary shares of HK\$0.2 each was reduced from HK\$0.2 each to HK\$0.1 each by the cancellation of the paid-up capital of HK\$0.1 on each issued ordinary share so that the existing issued share capital was reduced by HK\$64.1 million. The HK\$64.1 million arising from the reduction of capital was transferred to the contributed surplus; (ii) the share premium was reduced by HK\$157.3 million. The HK\$157.3 million arising from the reduction of share premium was used to eliminate the accumulated losses of the Company; (iii) every authorised but unissued ordinary shares of HK\$0.2 each was sub-divided into two new ordinary shares of HK\$0.1 each; and (iv) the authorised share capital of the Company was increased from HK\$200 million divided into 2,000,000,000 ordinary shares to HK\$300 million divided into 3,000,000,000 ordinary shares.
- (e) The ordinary shares issued above have the same rights as the other shares in issue.

17. CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no significant contingent liabilities.

18. SUBSEQUENT EVENT

Save as those disclosed elsewhere in the announcement, the Group and the Company had the following significant subsequent event:

- (i) In January 2008, the Company granted 26,850,000 share options under the share option scheme adopted on 20 October 2004 with exercise price of HK\$1.376 per share. The offer of a grant of share options is accepted upon payment of a nominal consideration of HK\$1 in total by each grantee. The option period of an option may not end later than 10 years after the date of adoption of the share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

The Group turned around its profitability in Year 2007 on strong and full year contributions from coal mining business which was acquired in October 2006. The Group's net profit for Year 2007 was HK\$150.3 million compared with a net loss of HK\$79.1 million for Year 2006 when the loss derived from the discontinued business was HK\$88.6 million.

The Group's turnover and gross profit have been significantly increased for Year 2007, they amounted to HK\$564.8 million and HK\$282.1 million respectively, mainly due to the full year contributions from coal mining business. The gross profit % was 49.95% for Year 2007.

Earnings per share and diluted earnings per share for Year 2007 amounted to HK\$21.679 cents and HK\$11.265 cents respectively.

Business Review

Successful Business Transformation

The Group is a committed coal mine operator with a meaningful provincial niche and stable clientele established in Henan Province after complete disposal of its electricity business during the first half of 2007. The Board expects the Group's revenue and profitability to maintain a remarkable increment in the future. The Group has already swung back into profit after completely disposing the electricity business. Earnings should improve on the back of additional contract sales as the acquired coal mines are expected to go on stream steadily to meet rising demand, and better control over pricing and costs. The Group has solid growth prospects, both organically and via acquisitions, underpinned by continuously strong coal demand and rising coal prices in China which are favorable to the Group's future earnings.

Successful Acquisition of Coal Mines

The Group has also proven its abilities in successfully executing acquisitions of operating mines with quality coal reserves that make meaningful contributions to the Group's profitability. Since October 2006, the Group has totally acquired five coal mines within the Henan Province. Experience and expertise gained in its past acquisitions should underpin the Group's ongoing acquisitive strategy. It is management's strategy not to acquire green-field mine but only acquire operational mines which contribute to top and bottom lines.

Coal Production and Coal Reserves

The Group focuses on production of raw and screened thermal coal mainly for power generation purpose. Its coal, which is in strong demand, is of medium-grade quality, with low/medium ash, low sulphur, medium volatile matter and low phosphorous contents. The five coal mines currently owned by the Group combined cover a total area of approximately 7.7 sq km with total coal reserves of approximately 36 million tons ("mt") as of end of December 2007 and have produced approximately 1.6mt of coal in 2007.

Efficient Cost Structure

With a provincial focus, the Group operates with a more efficient cost structure than many of its peers, such as those in North China. Transportation costs, which can take up to 30% of operating costs at some coal miners, are passed on to the Group's customers. Most of the customers of the Group arrange to pick up coal at our mine mouths, and bear the transportation costs by themselves. This is one of the important factors which allow the Group to achieve a high gross margin.

PROSPECT

Since the acquisition of Clear Interest Limited and its subsidiaries in last year, the Group has repositioned itself as a committed owner and operator of coal mines in China. With strong management expertise and a long-term vision in coal mining business, the Group is dedicated to exert management efforts, financial and technical resources to further expand its operations. Capitalizing on a niche franchise and good relationships established by the Group with local government and customers in Henan, management plans to maintain a geographical focus in Henan for the time being.

The Group plans to expand its mining operations through organic growth and acquisitions. Currently, it operates five coal mines, with total coal reserves of approximately 36mt as of end of December 2007 and achievable output capacity of up to approximately 2mt in 2008. Management targets to expand the coal reserve size to approximately 100mt and annual capacity up to approximately 6mt by 2011 to achieve better economies of scale and capture the continuous increase in coal demand. The Group will continue to identify suitable local mines to enlarge its coal reserves and output capacity, taking advantage of industry consolidation in China.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the net asset value of the Group is approximately HK\$398.2 million (31 December 2006: approximately HK\$292.6 million) and the total cash and bank balance is approximately HK\$115.2 million (31 December 2006: approximately HK\$30.7 million).

As at 31 December 2007, bank loans of approximately HK\$83.7 million were denominated in RMB and were unsecured, bear interest at fixed rate ranging from 6.7% to 11.5% per annum and repayable within one year.

The Group's gearing ratio, as a ratio of total long term debts to total equity, was 97.7% as at 31 December 2007 (31 December 2006: 98.6%).

DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group has a total of approximately 3,800 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover and a Mandatory Provident Fund. A share option scheme was adopted by the Group on 20 October 2004 to enable the Directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group. During the year, no share options were granted to executives and employees.

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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 December 2007 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 code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules during the year ended 31 December 2007, save for the following exception.

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

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

Detailed information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express my most sincere thanks and gratitude to our shareholders, and various parties for their continuing support, and our directors and staff for their dedication and hard work.

By order of the Board
Bao Hongkai
Chairman

Hong Kong
3 April 2008

As at the date of this announcement, the executive directors of the Company are Mr. Bao Hongkai, Mr. Cheng Koon Cheung, Mr. Wu Jiahong, Mr. Xu Lidi and the independent non-executive directors of the Company are Mr. Chan Kin Sang, Mr. Choi Man Chau Michael and Mr. Ng Wing Hang Patrick.

* *For identification purposes only*