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 2009

FINANCIAL HIGHLIGHTS

– Turnover increased by approximately 9.4% to approximately HK$863.9 million

– Profit after tax decreased by approximately 76.2% to approximately HK$74.5 million

– Net profit attributable to the owners of the Company decreased by approximately 83.6% to approximately HK$46.4 million

– Basic earnings per share for the year were 2.570 HK cents (2008: 17.649 HK cents as restated)

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 2009 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2009

	Notes	**2009** *HK$'000*	2008 *HK$'000*
Revenue	5	**863,894**	789,960
Cost of sales		**(358,962)**	(308,116)
Gross profit		**504,932**	481,844
Other income	5	**4,858**	14,107
Selling expenses		**(8,633)**	(6,412)
Administrative expenses		**(112,364)**	(109,833)
Other operating expenses		**(32,092)**	(18,964)
Operating profit		**356,701**	360,742
Change in fair value of compound derivative financial instruments	15	**(38,187)**	134,693
Finance costs	6	**(143,874)**	(74,567)
Share of loss of jointly controlled entity		**(124)**	–
Profit before income tax	7	**174,516**	420,868
Income tax expense	8	**(100,062)**	(108,204)
Profit for the year		**74,454**	312,664
Attributable to:			
Owners of the Company		**46,420**	283,532
Minority interest		**28,034**	29,132
Profit for the year		**74,454**	312,664
Earnings per share for profit attributable to the owners of the Company during the year	9		(Restated)
– Basic *(HK cents)*		**2.570**	17.649
– Diluted *(HK cents)*		**2.561**	8.709

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	**250,844**	205,737
Prepaid lease payments		**970**	1,255
Goodwill		**224,207**	239,955
Mining rights		**623,067**	640,941
Other intangible assets		**38**	118
Interest in jointly controlled entity		**90,958**	–
		1,190,084	1,088,006
Current assets			
Inventories	11	**33,707**	25,104
Accounts receivable	12	**257,970**	60,859
Prepayments, deposits and other receivables		**140,504**	160,883
Pledged bank deposits		**232,967**	85,170
Cash and cash equivalents		**159,067**	80,131
		824,215	412,147
Current liabilities			
Accounts and bills payables	13	**303,985**	168,485
Other payables and accruals		**66,134**	38,605
Provision for reclamation obligations		**14,106**	69,901
Provision for tax		**13,107**	45,809
Bank loans	14	**159,058**	68,130
Compound derivative financial instruments	15	**–**	4,788
Convertible bonds	15	**336,839**	186,454
		893,229	582,172
Net current liabilities		**(69,014)**	(170,025)
Total assets less current liabilities		**1,121,070**	917,981
Non-current liabilities			
Other payables		**–**	28,561
Compound derivative financial instruments	15	**–**	18,444
Convertible bonds	15	**–**	105,884
Deferred tax liabilities	16	**13,289**	–
		13,289	152,889
Net assets		**1,107,781**	765,092
EQUITY			
Share capital	17	**211,813**	66,959
Reserves		**801,179**	631,453
Equity attributable to the owners of the Company		**1,012,992**	698,412
Minority interest		**94,789**	66,680
Total equity		**1,107,781**	765,092

NOTES:

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 financial statements 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").

2. EXTRACT OF AUDIT OPINION FROM THE INDEPENDENT AUDITORS' REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter – material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 3.1 to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As at 31 December 2009, the Group and the Company had net current liabilities of approximately HK$69,014,000 and HK$331,108,000 respectively. In addition, convertible bonds issued by the Company with outstanding principal amount of US$16,000,000 (equivalent to approximately HK$124,480,000) had been requested by the bondholders to redeem on 10 December 2009, which was not settled as at 31 December 2009. These conditions together with those set out in note 3.1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

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

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

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

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

HKFRS 7 (Amendments) Improving disclosures about financial instruments

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

HKFRS 8 Operating segments

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

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

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

HKFRS 3 Business combinations (Revised 2008)

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

HKFRS 9 Financial instruments

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

HKAS 27 Consolidated and separate financial statements (Revised 2008)

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

Annual improvements 2009

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

4. SEGMENT INFORMATION

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

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

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

During 2009, HK$732.8 million or 84.8% (2008: HK$727.7 million or 92.1%) of the Group's revenues depended on three (2008: two) single customers in the sales of coal. As at the reporting date, 93.9% (2008: 96.8%) of the Group's trade receivables were due from these customers.

5. REVENUE AND OTHER INCOME

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

Turnover and other income recognised during the year are as follows:

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

6. FINANCE COSTS

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

7. PROFIT BEFORE INCOME TAX

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

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

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

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 (2008: Nil).

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

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

9. EARNINGS PER SHARE

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

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

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

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

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

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

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

10. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2009,

(a) the Group incurred capital expenditure of approximately HK$28.3 million (2008: approximately HK$27.1 million) in buildings, approximately HK$1.6 million (2008: approximately HK$4.2 million) in plant and machinery, approximately HK$16.8 million (2008: approximately HK$21.4 million) in mining related machinery and equipment, approximately HK$1.5 million (2008: approximately HK$2.1 million) in furniture, fixtures, equipment and leasehold improvement, approximately HK$3.2 million (2008: approximately HK$8.5 million) in motor vehicles and approximately HK$15.2 million (2008: approximately HK$11.0 million) in construction in progess.

(b) the Group disposed of certain items of property, plant and equipment with carrying value amounted to approximately HK$0.6 million (2008: approximately HK$6.0 million) and recognised a gain of approximately HK$0.2 million (2008: a loss of approximately HK$5.3 million) in the consolidated income statement.

11. INVENTORIES

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

12. ACCOUNTS RECEIVABLE

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

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

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

13. ACCOUNTS AND BILLS PAYABLES

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

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

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

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

14. BANK LOANS

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

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

15. 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 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. As at 31 December 2008, the holder of CB1 was Dragon Rich Resources Limited ("Dragon Rich"), a substantial shareholder and connected party of the Company. During the year, Dragon Rich fully converted the CB1 into ordinary shares of the Company.

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 will mature on 16 November 2010. The conversion price is subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. On 3 January 2008, Dragon Rich transferred part of the CB2 with principal amount of HK$39,000,000 to a third party. CB2 with principal amount of HK$3,000,000 was converted by the third party in 2008. On 5 December 2008, the third party transferred the remaining CB2 with principal amount of HK$36,000,000 to Dragon Rich. On 4 December 2009, part of CB2 with principal amount of HK$32,000,000 was redeemed by the Company and a loss on redemption of approximately HK$7,236,000 (being the redemption payment of CB2 of HK$32,000,000 minus the liability component and compound derivative component of CB2 of HK$21,746,000 and HK$3,018,000 respectively) was recognised as finance costs. On 10 December 2009, the Company was in default of payment for other convertible bonds as shown below. According to subscription agreement of CB2, Dragon Rich has the right to demand immediate repayment when the Company defaults in the repayment of any of its loan indebtedness. Loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand of approximately HK$39,846,000 (being the accelerated liability component of CB2 of approximately HK$58,443,000 minus the compound derivative component of CB2 of approximately HK$18,597,000) was recognised as finance costs. As at 31 December 2009, the holder of CB2 was Dragon Rich with remaining principal amount of HK$195,000,000 (2008: HK$227,000,000). The conversion price was adjusted from HK$1.1 per share to HK$0.61 per share upon the approval of the Bonus Issue on 30 April 2009. The conversion price was further adjusted from HK$0.61 per share to HK$0.46 per share upon the Open Offer becoming unconditional on 1 December 2009.

On 10 December 2007, the Company issued 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 will mature on 10 December 2010. The conversion price is subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. Both the Company and the holders of CB3 have redemption options. On 10 December 2009, the holders of CB3 would have the right at such holders' options, to require the Company to redeem all or some only of the CB3. On or at any time after 10 December 2009 and prior to the maturity date, the Company may redeem all or some only of the CB3 at their early redemption amount on the date fixed for such redemption if the average closing price per share for 20 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, is at least 160% of the early redemption amount in effect on such trading day divided by the conversion ratio. CB3 was secured by the Company's entire interest in CIL and Zhong Yue Energy Development (Shenzhen) Company Limited (the "Collaterals"). 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.

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

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

On initial recognition, the fair value of the liability component, included in convertible bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount of CB1, representing the value of the equity conversion component, was included in shareholders' equity in other reserves. The fair value of compound derivative components of CB2 and CB3, consisting of the conversion option and the redemption options, was estimated using financial models. The residual amounts of CB2 and CB3 represent the liability component. The compound derivative component is carried at fair value on the statement of financial position, with any changes in fair value being charged or credited to profit or loss in the period when change occurs.

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

	CB1	**CB2**	**CB3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue	20,000	230,000	194,500	444,500
Equity component	(4,582)	–	–	(4,582)
Compound derivative component on initial recognition	–	(163,162)	(53,794)	(216,956)
Liability component	15,418	66,838	140,706	222,962

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

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

		2008		
	CB1	CB2	CB3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	17,107	71,027	142,311	230,445
Payment of interest	(200)	–	(3,890)	(4,090)
Interest expense	1,751	35,900	29,375	67,026
Conversion of convertible bonds	–	(1,043)	–	(1,043)
At 31 December	18,658	105,884	167,796	292,338
Less: amount included under current liabilities	(18,658)	–	(167,796)	(186,454)
Amount included under non-current liabilities	–	105,884	–	105,884

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

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

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

During the year ended 31 December 2009, the compound derivative financial instruments were revalued by BMI Appraisals Limited. The fair value of the derivative component of CB2 was calculated using the Binomial model. The fair value of the compound derivative component of CB3 was calculated using Binomial model, Hull-White model and Trinomial model. These valuation techniques are based on available observable market data. The major inputs used in the models as at 31 December 2008, 10 December 2009 and 31 December 2009 were as follows:

	CB2 31 December 2009	**CB3 10 December 2009 (Date on redemption)**	CB2 31 December 2008	CB3 31 December 2008
Stock price	**HK$0.375**	**HK$0.395**	HK$0.48*	HK$0.48*
Expected volatility	**50.85%**	**55.26%**	76.26%	75.45%
Risk free rate	**0.21%**	**0.133%**	0.493%	0.509%
Expected life	**11 months**	**12 months**	23 months	23 months

Any changes in the major inputs into the models will result in changes in the fair value of the compound derivative components. The change in the fair value of the compound derivative components from 1 January 2009 to 31 December 2009 resulted in a net fair value loss of approximately HK$38.2 million (2008: fair value gain of approximately HK$134.7 million), which has been recorded as the "Change in fair value of compound derivative financial instruments" in the consolidated income statement for the year ended 31 December 2009.

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

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

16. DEFERRED TAX

The Group has taxable losses arising in Hong Kong of approximately HK$1.7 million (2008: approximately HK$2.1 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the unpredictability of future profits.

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

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

17. SHARE CAPITAL

	Notes	**2009 Number of shares**	***HK$'000***	2008 Number of shares	*HK$'000*
Authorised:					
At 1 January and 31 December, ordinary shares of HK$0.1 each		**3,000,000,000**	**300,000**	3,000,000,000	300,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.1 each		**669,589,885**	**66,959**	666,862,614	66,686
Conversion of convertible bonds for ordinary shares of HK$0.1 each	*(a)*	**136,711,038**	**13,671**	2,727,271	273
Exercise of share options for ordinary shares of HK$0.1 each	*(b)*	**14,400,000**	**1,440**	–	–
Issue of ordinary shares under Bonus Issue	*(c)*	**591,386,193**	**59,139**	–	–
Issue of ordinary shares under Open Offer	*(d)*	**706,043,558**	**70,604**	–	–
At 31 December, ordinary shares of HK$0.1 each		**2,118,130,674**	**211,813**	669,589,885	66,959

Notes:

(a) In March 2009, 57,142,857 ordinary shares in aggregate were issued, at the conversion price of HK$0.35 per share, to Dragon Rich upon the full conversion of CB1. As a result, there was an increase in share capital and share premium of approximately HK$5.7 million and HK$13.2 million (excluding the amount that would be transferred from equity component of convertible bonds to share premium) respectively.

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

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

(b) During the year, 7,500,000, 5,000,000 and 1,900,000 share options were exercised at the subscription price of HK$0.355 per share (before adjustments for Bonus Issue and Open Offer), HK$1.376 per share (before adjustments for Bonus Issue and Open Offer) and HK$0.764 per share (after adjustments for Bonus Issue but before adjustments for 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.

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

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

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

18. SHARE OPTION SCHEME

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.

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.

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

At 31 December 2009, the Company had 56,100,000 (2008: 38,100,000) share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 56,100,000 (2008: 38,100,000) additional ordinary shares of the Company and additional share capital of approximately HK$5.6 million (2008: HK$3.8 million) and share premium of approximately HK$24.2 million (2008: HK$37.1 million), before the netting-off of the related shares issue expenses and the amount that would be transferred from share option reserve to share premium.

19. RELATED PARTY TRANSACTIONS

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

(i) Compensation of key management personnel

	2009	2008
	HK$'000	*HK$'000*
Total remuneration of key management during the year	**7,004**	11,220

(ii) Conversion and redemption of convertible bonds

During the year ended 31 December 2009, CB1 was fully converted into ordinary shares of the Company by Dragon Rich and HK$32,000,000 was paid to Dragon Rich for the partial redemption of CB2. Dragon Rich is a company incorporated in the British Virgin Islands which is beneficially owned as to 40% by Mr. Bao Hongkai ("Mr. Bao"), as to 20% by Mr. Wu Jiahong ("Mr. Wu"), as to 20% by Mr. Xu Lidi ("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.

20. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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

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

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

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

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

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

For the year of 2009, the increase in finance cost also affected the overall result of the Group. The finance cost for the year ended 31 December 2009 was increased by 92.9% (2009: approximately HK$143.9 million; 2008: approximately HK$74.6 million). The increase in finance cost for the year of 2009 was mainly due to the arisen of the loss of redemption of convertible bonds amounted to approximately HK$19.7 million and the loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand amounted to approximately HK$39.8 million. For details of these two losses, please refer to note 15.

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

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

BUSINESS AND FINANCIAL REVIEW

Revenue

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

Gross Profit

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

Operating Profit

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

Net Profit

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

PROSPECT

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

As announced by the Company on 10 December 2009 and 23 December 2009, the CB3 has already been fallen due. Up to the date of this announcement, CB3 still have not yet been repaid. Moreover, according to subscription agreement of CB2, Dragon Rich has the right to give notice to the Company to demand immediate repayment when the Company defaults in the repayment of any of its loan indebtedness. As at the date of this announcement, no notice was given by Dragon Rich to demand the repayment of outstanding principal of CB2.

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

EXCHANGE RISK EXPOSURE

The sales and purchases of the Group are predominantly in RMB which is the functional currency of the related group entities. The Board therefore is of the opinion that the Group's sensitivity to the change in foreign currency is low and the Group does not hedge its foreign currency risk.

DIVIDEND

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group has a total of approximately 4,500 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical insurance and a Mandatory Provident Fund. A share option scheme was adopted by the Group on 20 October 2004 to enable the directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group. During the year, except the share options allotted to directors and employees according to the adjustment terms of the scheme upon approval of the bonus issue on 30 April 2009 and the open offer becoming unconditional on 1 December 2009, no share option has been granted to directors or employees.

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 three of the independent non-executive directors of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 December 2009 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The directors are in the opinion that the Company had complied with the code provisions during the year ended 31 December 2009 save for the following exception.

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

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement has been published on the websites of the Stock Exchange (www. hkexnews. hk) and the Company (http://www. irasia. com/listco/hk/dynamicenergy/index. htm). The 2009 annual report will be despatched to the shareholders and available on the same websites on or before 30 April 2010.

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
Wu Jiahong
Executive Director

Hong Kong
26 April 2010

As at the date of this announcement, the executive directors are Mr. Bao Hongkai, Mr. Li Chun On, Mr. Wu Jiahong, Mr. Xu Lidi; and the independent non-executive directors are Mr. Chan Kin Sang, Mr. Choi Man Chau Michael, Mr. He Guangcai and Mr. Ng Wing Hang Patrick.

* *For identification purposes only*