福山國際能源集團有限公司

Fushan International Energy Group Limited

Stock Code: 639

Annual Report 2007

Contents

Corporate Information

DIRECTORS

Executive directors:
WONG Lik Ping (Chairman)
SO Kwok Hoo
XUE Kang

Non-executive director:
LI King Luk

Independent non-executive directors:
KEE Wah Sze
CHOI Wai Yin
CHAN Pat Lam

AUDIT COMMITTEE

CHOI Wai Yin (Chairman)
KEE Wah Sze
CHAN Pat Lam

REMUNERATION COMMITTEE

KEE Wah Sze (Chairman)
SO Kwok Hoo
CHOI Wai Yin
CHAN Pat Lam

SOLICITORS

Clifford Chance
Tsun & Partners, Solicitors

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank Limited

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
No. 28 Queen's Road East
Hong Kong

REGISTERED OFFICE

12th Floor Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

COMPANY SECRETARY

LAM Lin Chu

AUDITORS

Grant Thornton
Certified Public Accountants

Executive Director's Statement

BUSINESS REVIEW

Last year, our total sales turnover increased by 43% to approximately HK$15.00 million whereas coal trades amounted to approximately HK$14.26 million which rose by 50% in comparison with the previous year. Gross profit was HK$1.85 million together with interest income, the overall income for the year reached approximately HK$16.99 million. Due to the issue of 5-year zero-coupon convertible notes in last April together with the granting of the share option in the previous year, additional finance cost of HK$15.19 million, fair value loss on derivative liability of convertible notes of HK$21.04 million and share-based compensation expense of HK$19.43 million were incurred according to the accounting standards. As we were in the progress of potential coal mine acquisition, professional expenses incurred were HK$14.36 million. Eventually, the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK$77.95 million for 2007.

As highlighted in our interim report that global economic system would be undergoing extraordinary strain as market turbulence arising for the second half of 2007. With decision made, we raised approximately HK$730 million from the capital market in the first half of last year. With a healthy liquidity position and in line with our defined profit growing strategy, we increased our equity interest from 51% to 66% in the PRC joint-venture "山西曜鑫煤焦有限責任公司 Shanxi Yao Zin Coal and Coking Company Ltd ("Yao Zin")" in last July. We also raised our shareholding from 65% to 91.25% in another PRC joint-venture "山西金山能源有限公司 Shanxi Jinshan Energy Limited ("Jinshan")" in last November . Indeed, one of our coke plants would start trial operation in the second quarter this year, both revenue and profit growth will then take place and bring the principle business of the Company into a new chapter.

FINANCIAL POSITION

Material acquisitions and disposals

On 24 July 2007, the Group and two minority equity holders of Yao Zin entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase the registered capital of Yao Zin from RMB80,000,000 to RMB320,000,000. The registered capital of Yao Zin was increased by RMB240,000,000, of which RMB170,400,000 shall be contributed by the Group and the remaining of RMB69,600,000 shall be contributed by one of minority equity holders of Yao Zin. The proportionate capital contribution of RMB170,400,000 to be made by the Group would be financed by the proceeds of the share placement and issue of convertible notes in April 2007. As at 31 December 2007, the Group has injected cash of RMB140,000,000 to Yao Zin. The remaining balance of RMB30,400,000 will be injected into Yao Zin later. Upon completion during the year ended 31 December 2007, the Group increased its equity interest in Yao Zin from 51% to 66%.

In addition, on 26 November 2007, the Group and minority equity holders of Jinshan entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase the registered capital of Jinshan from RMB100,000,000 to RMB400,000,000. The increase in the registered capital of RMB300,000,000 shall be contributed by the Group only and would be financed by the proceeds of the share placement and issue of convertible notes in April 2007. As at 31 December 2007, the Group has injected cash of RMB93,966,000 to Jinshan. The remaining balance of RMB206,034,000 will be injected into Jinshan later. Upon completion during the year ended 31 December 2007, the Group increased its equity interest in Jinshan from 65% to 91.25%.

During the year ended 31 December 2007, save as disclosed above, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

Charges on Assets

As at 31 December 2007, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

As at 31 December 2007, there were no guarantees given to any banks or financial institutions by the Group.

FINANCIAL POSITION *(cont'd)*

Gearing Ratio

As at 31 December 2007, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by the total equity, was approximately 37%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC and payment for deposits for a potential mining project. On 20 April 2007, the Group issued 5-year zero coupon convertible notes (the "Notes") for the aggregate principal amount of HK$300,000,000 to finance existing and future coal related projects. As at 31 December 2007, the Notes with the aggregate principal amount of HK$260,000,000 have been converted into shares of the Company. The remaining balance of HK$40,000,000 was converted into shares of the Company in the early of January 2008.

Exposure To Fluctuations In Exchange Rates

As at 31 December 2007, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 31 December 2007, the Group's current ratio (current assets divided by current liabilities) was approximately 1.12 and the Group's cash and bank deposits amounted to approximately HK$460,538,000, of which approximately HK$294,921,000 was deposited at the escrow account. On 24 January 2008, the amount deposited at the escrow account was released. In April 2007, the Company raised net proceeds of HK$730,000,000 from the issue of new shares and the Notes resulting in strengthen working capitals of the Group.

Staff

The Group had 7 Hong Kong employees and 375 PRC employees at 31 December 2007 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees (note 3(s) to the financial statements). The Group has also adopted share option scheme since 20 June 2003 (note 3(r) and note 34 to the financial statements). Details of share options being granted under the share option scheme during the year are set out in the section "SHARE OPTION SCHEME" of Director's Report.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2007.

FUTURE PROSPECTS

In 2008, it is believed that the recession of the US property market leads credit deterioration will carry on, rising of commodities price especially on oil are the consequence of the prolonged weak US dollar policy, and these financial situation will remain as the issues for the whole year round. Because of the fast growing inflation, China keeps on intensifying the macro economic measures to maintain a stable and progressive economic development. We have determined to focus our business in Shanxi province with areas in coal mine and its downward integrations. This year, we will increase the productivity of our coke plants to meet market demand gradually. We have started to build a preparation plant with output capacity of 3 million tons per annum and planned to have production be commenced by the end of 2008 or in the early of 2009. This approach will enable us to expand the customer base, increase both revenue and profitability together.

In respect of the coalmine investment, we have entered into the memorandum of understanding (the "MOU") including exclusivity undertaking in relation to a potential acquisition in coalmines in-operation. We are still in progress of discussion with the vendor and hopefully we would complete the acquisition shortly. We will definitely strengthen our position in the coal business through the successfulness of this acquisition. Details of the MOU are set out in the Company's announcements dated 31 January 2008, 3 March 2008 and 31 March 2008.

Executive Director's Statement

FUTURE PROSPECTS *(cont'd)*

On the other hand, our application of the target mining right progressed well in obtaining approvals and documents from the relevant government authorities. We expect the application process would be completed within this year. With the addition of the coal reserve, our Group will be well positioned in the China coal sector and benefited a distinct competitive advantage in the way ahead.

APPRECIATION

With the coke plant production begins shortly, our Group is making a significant progress to commit ourselves in the energy sector. We would like to express our appreciation to our fellow Directors and the colleagues for their contribution and commitment in bringing the Group into a unique and fast growth business.

SO Kwok Hoo
Executive Director

Hong Kong, 14 April 2008

Directors' Report

The board of directors (the "Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company's principal activities are investment holding and sales of jewellery products. The Group is principally engaged in production and sales of coking coal products and side products and sales of jewellery products. Particulars of the subsidiaries are set out in note 18 to the financial statements. During the year, the Directors decided to cease the business of jewellery due to a strategic decision to focus the direction of the Group to energy sector. The sale clearance of jewellery was completed in 28 February 2007.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 19 to 65.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2007.

SHARE CAPITAL

Details of share capital of the Company as at 31 December 2007 are set out in note 33 to the financial statements. 341,588,000 new shares of the Company were issued upon the share placement completed on 2 April 2007 and conversion of partial convertible notes issued on 20 April 2007 during the year.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in note 35 to the financial statements.

The Company did not have any reserves available for distribution as at 31 December 2007, calculated under Section 79B of the Hong Kong Companies Ordinance.

PROPERTY, PLANT AND EQUIPMENT

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

CONVERTIBLE NOTES

During the year ended 31 December 2007, the Group issued convertible notes for the aggregate principal amount of HK$300,000,000. Details of the convertible notes are set out in note 32 to the financial statements.

BANK LOAN AND OTHER BORROWINGS

Particulars of bank loan and other borrowings of the Group and of the Company as at 31 December 2007 are set out in notes 27 to 31 to the financial statements.

Directors' Report

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66 of the annual report.

RETIREMENT SCHEMES

The Group provides the mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees. Particulars of these retirement schemes are set out in note 3(s) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors:

Mr. WONG Lik Ping
Mr. SO Kwok Hoo
Mr. XUE Kang (appointed on 21 January 2008)

Non-executive director:

Mr. LI King Luk (redesignated from executive director to non-executive director on 21 January 2008)

Independent non-executive directors:

Mr. KEE Wah Sze
Mr. CHOI Wai Yin
Mr. CHAN Pat Lam

In accordance with Article 90 of the Company's Articles of Association, Mr. Xue Kang, being appointed by the Directors on 21 January 2008, shall hold office only until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 98 of the Company's Articles of Association, Mr. Wong Lik Ping and Mr. So Kwok Hoo shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam were appointed for a one-year term expiring on 31 December 2008.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Wong Lik Ping's interest in contracts of significance in relation to the Group's business are set out in notes 29, 31 and 32 to the financial statements.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 20 June 2003, the equity holders of the Company approved the adoption of a new option scheme ("the Scheme") and gave the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. The Scheme will expire on 20 June 2013. Other particulars of the Scheme are set out in note 34 to the financial statements.

At 31 December 2007, the number of shares in respect of which options had been granted under the Scheme was 104,000,000 (2006: 104,000,000), representing approximately 5% (2006: 5%) of the shares of the Company in issue at that date. The total number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on 20 June 2003 without prior approval from the equity holders of the Company. The number of shares in respect of which options may be granted to any individual in any 12-month period up to and including the date of grant of option shall not exceed 1% of the shares in issue, without prior approval from the shareholders of the Company. Options granted to a substantial equity holder or any independent non-executives of the Company in excess of 0.1 % of the issued capital of the Company and with an aggregate value in excess of HK$5 million must be approved in advance by the equity holders of the Company.

No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date to be determined by the Directors, but in any event not more than 10 years from the date of grant. The exercise price of options is to be determined by the Directors and is the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant.

The total number of securities available for issue under the Scheme as at 31 December 2007 was 104,080,000 (2006: 104,080,000) which represented approximately 4% (2006:5%) of the issued share capital of the Company at 31 December 2007.

SHARE OPTION SCHEME *(cont'd)*

As at 31 December 2007, the option holders of the Company had the following interest in unlisted options to subscribe for shares of the Company granted under the Scheme. The vesting period of the options is two years from the date of grant and the options are then exercisable within a period of next five years. Each option gives the option holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. During the year, none of options was granted and was exercised.

	No. of options outstanding at the beginning of the year and at the year end	Grant date	Period during which options are exercisable	Exercise price per share
Directors				
Wong Lik Ping	2,000,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
So Kwok Hoo	6,500,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Xue Kang (appointed on 21 January 2008)	6,000,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Chan Pat Lam	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Choi Wai Yin	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Kee Wah Sze	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Sub-total	**16,900,000**			
Employees	72,500,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Others	14,600,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50
Total	**104,000,000**			

Note: Closing price per share immediately before the date of grant of options was HK$1.34.

SHARE OPTION SCHEME *(cont'd)*

The fair value of the options granted in the current year, measured at the date of grant on 26 April 2006, totaled approximately HK$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount will be recognised as a share-base compensation expense in the consolidated income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, HK$19,429,000 (2006 : HK$12,953,000) was recognised as a share-based compensation expense in the consolidation income statement with a corresponding credit in share-based compensation reserve for the year ended 31 December 2007.

Using the Black-Scholes option pricing model, the following significant assumptions were used to derive the fair value of the options granted on 26 April 2006:

1. an expected volatility of 57.33%;

2. nil dividend yield;

3. the estimated weighted average expected life of the options granted on 26 April 2006 is 2.1 years. The corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of the options granted was 4.27%; and

4. estimated turnover rates of the Mainland employees and Hong Kong employees are both 15%.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to the absence of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the director' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save as disclosed in the section "SHARE OPITON SCHEME", at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements, which enable a director or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2007, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) *Long positions in ordinary shares (HK$0.10 each) of the Company:*

	Number of ordinary shares held			% of issued share share capital of the Company
Name of Director	**Personal interests**	**Corporate interests**	**Total**	**Total**
Mr. Wong Lik Ping	90,750,000	1,149,200,000 *(Note)*	1,239,950,000	51.19%

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,149,200,000 ordinary shares in the Company as at 31 December 2007.

(ii) *Options to subscribe for ordinary shares (HK$0.10 each) of the Company:*

The directors of the Company have been granted unlisted options under the Company's share option scheme, details of which are set out in the section "SHARE OPITON SCHEME" above.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2007, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS" above, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	100%
– five largest suppliers in aggregate	100%
Sales	
– the largest customer	100%
– five largest customers in aggregate	100%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these suppliers or customers.

Directors' Report

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

SUBSEQUENT EVENTS

The subsequent events are set out in note 43 to the financial statements.

AUDITORS

Grant Thornton retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

So Kwok Hoo
Executive Director

Hong Kong, 14 April 2008

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Wong Lik Ping (age 47), Chairman, was appointed as an executive director of the Company on 14 September 2001. Mr. Wong has over 17 years' experience in trading business and financial industry and has held directorship with various private companies. He has extensive experience and investments in a wide range of businesses including mine industry in the People's Republic of China (the "PRC").

Mr. So Kwok Hoo (age 54) was appointed as an executive director of the Company on 20 March 1998. Mr. So has over 20 years of experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong as well. He holds Bachelor degrees in both Applied Science with major in Chemical Engineering and Business Administration obtained in Canada.

Mr. Xue Kang (aged 45) was appointed as an executive director of the Company on 21 January 2008. Mr. Xue has over 20 years' experience in the field of mine industry in the PRC. Mr. Xue has joined our Group since May 2003. Currently, he is the deputy general manager and director of 山西金山能源有限公司 (Shanxi Jinshan Energy Limited), which is a non-wholly owned subsidiary of the Company in the PRC. He is also a director of another three non-wholly owned subsidiaries of the Group in the PRC, namely 山西曜鑫煤焦有限責任公司 (Shanxi Yao Zin Coal and Coking Company Limited) and 柳林縣聯山煤化限公司 (Liulin Luenshan Coking Company Limited) and 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Company). Before he joined the Group, Mr. Xue was the assistant to general manager of a company engaged in provision of mine related services in the PRC for several years. Mr. Xue holds a diploma of Electrical and Mechanical engineering from 山西省陽泉煤校機電專業 (Shanxi Yangquan Coal Mine Vestibule School Electro-mechanics Specialist) and a diploma of logistic management from 山西煤炭管理幹部學院物資供應專業 (Shanxi Coal-Mining Administrative College Logistic Management Specialist) respectively.

NON-EXECUTIVE DIRECTOR

Mr. Li King Luk (age 52) was appointed as an executive director of the Company on 14 September 2001 and was re-designated to a non-executive director on 21 January 2008. Mr. Li has over 19 years' experience in corporate management. He worked for a ceramics factory in Shanxi Province, the PRC as factory manager for 6 years. He also has over 13 years of experience in trading. Mr. Lee holds a Bachelor Degree in North Western University of Light Industry of the PRC (中國西北輕工業學院).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kee Wah Sze (age 60) was appointed as an independent non-executive director of the Company on 11 April 1997. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and is a practicing solicitor in Hong Kong for over 20 years specialized in both the commercial and conveyancing fields. He is a Notary Public of Hong Kong, a China Appointed Attesting Offices and holder of Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC. Mr. Kee also currently serves as an executive director of Goldbond Group Holdings Limited, which is a Hong Kong Listed Company.

Mr. Choi Wai Yin (age 49) was appointed as an independent non-executive director of the Company on 1 July 2004. Mr. Choi has over 20 years' experience in the fields of finance and fund management. He currently serves as a General Manager of Upbest Group Limited which is a Hong Kong listed company and an executive director of a company which is the investment manager of two Hong Kong listed companies. Mr. Choi is an investment adviser registered under the Securities and Future Ordinance. He holds a Master degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from the Chinese University of Hong Kong and a Bachelor Degree in law from the Peking University.

Mr. Chan Pat Lam (aged 59) was appointed as an independent non-executive director of the Company on 31 December 2004. Mr. Chan has over 35 years' experience in the field of international banking industry in Hong Kong, Macau and California. Currently, he is the assistant to the Managing Director of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company, which is engaged in trading and wholesaling of grocery items.

Corporate Governance Report

(a) Corporate governance practices

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2007, in compliance with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited, which came into effect on 1 January 2005.

(b) Directors' securities transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules and its code of conduct regarding securities transactions by directors (the "Code of Conduct"). The Directors have made enquiry to all directors of the Company to confirm that they have complied with the Code of Conduct during the year ended 31 December 2007.

(c) Board of directors

During the year ended 31 December 2007, the Board of directors comprised 3 independent non-executive directors and 3 executive directors. Since 21 January 2008, the Board of directors comprises 3 independent non-executive directors, 1 non-executive director and 3 executive directors. The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Details of backgrounds and qualifications of the directors are set out in the section of "BIOGRAPHICAL DETAILS OF DIRECTORS".

The attendance records of all board meeting in 2007 are set out below:

Number of meetings held in 2007	27
Executive Directors	
Wong Lik Ping	17/27
So Kwok Hoo	27/27
Li King Luk	1/27
Independent non-executive directors	
Kee Wah Sze	9/27
Choi Wai Yin	8/27
Chan Pat Lam	9/27

(d) Chairman and chief executive officer

Chairman and chief executive officer of the Company are Mr. Wong Lik Ping and Mr. So Kwok Hoo respectively.

(e) Independent non-executive directors

Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam are independent non-executive directors. Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam were appointed for a one-year term expiring on 31 December 2008.

(f) Remuneration of directors

The Company set up a Remuneration Committee in accordance with the relevant requirements of the Code on 21 September 2005. The Committee comprises four members, including three independent non-executive directors namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam and one executive director namely Mr. So Kwok Hoo. The Committee is chaired by Mr. Kee Wah Sze.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive and non-executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the directors.

The Remuneration Committee should consider factors such as salaries index, time commitment and responsibilities of the directors.

Details of the directors' remuneration are set out in note 14 to the financial statements.

The attendance records of Remuneration Committee meeting in 2007 are set out below:

Number of meetings held in 2007	2
Name of members	
Kee Wah Sze	2/2
So Kwok Hoo	2/2
Choi Wai Yin	2/2
Chan Pat Lam	2/2

(g) Nomination of directors

The board of directors considered that nomination committee was not necessary to set up as the board of directors takes the role and function of nomination committee. During the year ended 31 December 2007, neither appointment nor resignation of the directors shall be considered. On 21 January 2008, the board of directors appointed Mr. Xue Kang as an executive director and re-designated Mr. Li King Luk from an executive director to a non-executive director.

(h) Audit committee

The Company has an Audit Committee which was established in accordance with the requirements of the Code of the Best Practice for the purposes of reviewing and supervision over the Groups' financial reporting process and internal controls. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The primary roles and functions of the Audit Committee are to review and supervise the financial reporting process and internal controls systems of the Group. The Audit Committee is also responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions would led to any potential material adverse effect on the Company.

The Audit Committee comprises three independent non-executive directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam. The Committee is chaired by Mr. Choi Wai Yin.

The attendance records of Audit Committee meeting in 2007 are set out below:

Number of meetings held in 2007	2
Name of members	
Choi Wai Yin	2/2
Kee Wah Sze	2/2
Chan Pat Lam	2/2

The Group's unaudited financial report for the six months ended 30 June 2007 and annual audited financial report for the year ended 31 December 2007 have been reviewed by the Audit Committee.

(i) Auditors remuneration

An analysis of remuneration in respect of audit and non-audit services provided by Grant Thornton for the year ended 31 December 2007 is as follows:

	HK$'000
Audit services	440
Accountant report for a potential acquisition	3,268
Other non-audit services	10
	3,718

(j) Internal control

The Board of directors has overall responsibility for maintaining sound and effective internal controls to safeguard the shareholders' investment and the Group's assets, as well as for reviewing the system of internal control of the Group.

The Board of directors has conducted annual review of the system of internal control of the Group to ensure the effective and adequate internal control systems including the relevant financial, operational and compliance controls and risk management functions. The management throughout the Group maintains and monitors the internal control system on an ongoing basis.

(k) Investors relations

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules. The Company's annual general meeting is a valuable forum for the directors to communicate directly with the shareholders.

Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

TO THE MEMBERS OF FUSHAN INTERNATIONAL ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Fushan International Energy Group Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 19 to 65, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

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 2007 and of the Group's loss 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 Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

14 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5	**15,056**	10,535
Cost of sales		**(13,206)**	(8,601)
Gross profit		**1,850**	1,934
Other operating income	7	**15,142**	275
Administrative expenses		**(42,094)**	(35,282)
Other operating expenses		**(17,469)**	(3,013)
Operating loss		**(42,571)**	(36,086)
Finance costs	8	**(22,482)**	(9,028)
Fair value loss on derivative liability of convertible notes	32	**(21,038)**	–
Loss before income tax	9	**(86,091)**	(45,114)
Income tax expense	10	**–**	–
Loss for the year		**(86,091)**	(45,114)
Attributable to:			
Equity holders of the Company	11	**(77,948)**	(30,988)
Minority interests		**(8,143)**	(14,126)
Loss for the year		**(86,091)**	(45,114)
Loss per share for loss attributable to the equity holders of the Company during the year	12		
– Basic		**HK(3.42cents)**	HK(1.49cents)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**376,349**	255,276
Leasehold land and land use rights	16	**17,799**	17,164
Goodwill	17	**15,703**	–
Interests in associate	20	**–**	–
Available-for-sale financial assets	21	**7,597**	–
Prepayments and deposits	22	**389,437**	227,934
		806,885	500,374
Current assets			
Inventories	23	**–**	–
Trade receivables	24	**7,232**	3
Prepayments, deposits and other receivables		**20,429**	6,154
Cash and cash equivalents	25	**460,538**	10,573
		488,199	16,730
Current liabilities			
Trade payables	26	**2,294**	–
Other payables		**125,997**	29,812
Bank loans	27	**54,265**	49,963
Other loans	28	**130,323**	89,882
Amounts due to related companies	29	**25,907**	–
Amounts due to minority equity holders of subsidiaries	30	**85,589**	1,998
Amount due to ultimate holding company	31	**–**	10,000
Derivative liabilities of convertible notes	32	**10,916**	–
		435,291	181,655
Net current assets/(liabilities)		**52,908**	(164,925)
Total assets less current liabilities		**859,793**	335,449
Non-current liabilities			
Other loans	28	**–**	141,995
Amounts due to related companies	29	**–**	25,820
Amounts due to minority equity holders of subsidiaries	30	**33,769**	68,054
Convertible notes	32	**34,014**	–
		67,783	235,869
Net assets		**792,010**	99,580

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*33*	**242,239**	208,080
Reserves	*35*	**491,492**	(150,534)
		733,731	57,546
Minority interests		**58,279**	42,034
Total equity		**792,010**	99,580

On behalf of the Board

Wong Lik Ping
Director

So Kwok Hoo
Director

Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**42**	61
Interests in subsidiaries	18	**–**	–
Loans to subsidiaries	19	**126,598**	–
Interests in associate	20	**–**	–
		126,640	61
Current assets			
Inventories	23	**–**	–
Trade receivables	24	**–**	3
Amounts due from subsidiaries	19	**661,059**	82,006
Prepayments, deposits and other receivables		**29**	24
Cash and cash equivalents	25	**7,542**	3,299
		668,630	85,332
Current liabilities			
Other payables		**5,765**	876
Amount due to ultimate holding company	31	**–**	10,000
		5,765	10,876
Net current assets		**662,865**	74,456
Net assets		**789,505**	74,517
EQUITY			
Share capital	33	**242,239**	208,080
Reserves	35	**547,266**	(133,563)
Total equity		**789,505**	74,517

On behalf of the Board

Wong Lik Ping
Director

So Kwok Hoo
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Loss before income tax		**(86,091)**	(45,114)
Adjustments for:			
Depreciation of property, plant and equipment		**2,755**	2,643
Amortisation of operating lease prepayments		**450**	430
Finance costs		**22,482**	9,028
Fair value loss on derivative liability of convertible notes		**21,038**	–
Interest income		**(15,142)**	(275)
Share-based compensation expense		**19,429**	12,953
Operating loss before working capital changes		**(35,079)**	(20,335)
(Increase)/Decrease in trade receivables		**(7,229)**	7,129
Increase in prepayments, deposits and other receivables		**(13,752)**	(83)
Increase/(Decrease) in trade payables		**2,294**	(6,584)
Increase in other payables		**7,424**	4,362
Net cash used in operating activities		**(46,342)**	(15,511)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(57,737)**	(12,893)
Prepayments for purchases of property, plant and equipment, and potential mining project		**(99,948)**	(102,391)
Capital investment in an available-for-sale financial assets		**(7,597)**	–
Interest received		**15,142**	275
Net cash used in investing activities		**(150,140)**	(115,009)
Cash flows from financing activities			
Net proceeds from issue of new shares upon placement		**443,530**	–
Net proceeds from issue of convertible notes		**289,522**	–
Proceeds from new bank loans		**54,265**	49,963
Repayment of bank loans		**(50,819)**	(23,832)
Proceeds from new other loans		**–**	102,672
Repayment of other loans		**(101,555)**	–
Repayment to ultimate holding company		**(10,000)**	–
(Repayment to)/Advances from related companies		**(2,281)**	8,994
Advances from minority equity holders of subsidiaries		**30,509**	4,196
Finance costs paid		**(7,293)**	(10,940)
Net cash generated from financing activities		**645,878**	131,053
Net increase in cash and cash equivalents		**449,396**	533
Cash and cash equivalents at 1 January		**10,573**	10,587
Effect of foreign exchange rate changes		**569**	(547)
Cash and cash equivalents at 31 December	25	**460,538**	10,573

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Equity attributable to equity holders of the Company						Minority interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2007	**208,080**	**399,169**	**(566,219)**	**12,953**	**3,563**	**57,546**	**42,034**	**99,580**
Net income directly recognised in equity – exchange difference arising from translating the financial statements of foreign entities	**–**	**–**	**–**	**–**	**10,355**	**10,355**	**8,685**	**19,040**
Loss for the year	**–**	**–**	**(77,948)**	**–**	**–**	**(77,948)**	**(8,143)**	**(86,091)**
Total recognised income and expense for the year	**–**	**–**	**(77,948)**	**–**	**10,355**	**(67,593)**	**542**	**(67,051)**
Further increase in shareholdings of non-wholly owned subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**15,703**	**15,703**
Share-based compensation	**–**	**–**	**–**	**19,429**	**–**	**19,429**	**–**	**19,429**
Issue of new shares	**23,000**	**420,530**	**–**	**–**	**–**	**443,530**	**–**	**443,530**
Issue of new shares upon conversion of convertible notes	**11,159**	**269,660**	**–**	**–**	**–**	**280,819**	**–**	**280,819**
At 31 December 2007	**242,239**	**1,089,359**	**(644,167)**	**32,382**	**13,918**	**733,731**	**58,279**	**792,010**

	Equity attributable to equity holders of the Company						Minority interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2006	208,080	399,169	(535,231)	–	1,167	73,185	54,276	127,461
Net income directly recognised in equity – exchange difference arising from translating the financial statements of foreign entities	–	–	–	–	2,396	2,396	1,884	4,280
Loss for the year	–	–	(30,988)	–	–	(30,988)	(14,126)	(45,114)
Total recognised income and expense for the year	–	–	(30,988)	–	2,396	(28,592)	(12,242)	(40,834)
Share-based compensation	–	–	–	12,953	–	12,953	–	12,953
At 31 December 2006	208,080	399,169	(566,219)	12,953	3,563	57,546	42,034	99,580

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is located at 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The directors consider the ultimate holding company as at 31 December 2007 to be China Merit Limited, which is incorporated in the British Virgin Islands.

The principal activities of the Company and its subsidiaries (the "Group") comprise the production and sales of coking coal products and side products and sales of jewellery products. The principal places of the business are in Hong Kong and the People's Republic of China (the "PRC"). In 2006, the directors had ceased the business of jewellery due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery had been completed on 28 February 2007. The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 19 to 65 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 ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 14 April 2008.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements beginning on 1 January 2007.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures
HK(IFRIC) Int-8	Scope of HKFRS 2
HK(IFRIC) Int-9	Reassessment of Embedded Derivatives
HK(IFRIC) Int-10	Interim Financial Reporting and Impairment

The adoption of these HKFRSs had no material effect on how the results and financial position for the current or prior periods have been prepared but HKAS 1 (Amendment) and HKFRS 7 resulted in additional disclosures on the Group's capital management policies and, significance of financial instruments and the nature and extent of risk arising from the financial instruments used. Accordingly, no prior period adjustment is required.

HKAS 1 (Amendment) – Capital Disclosures

In accordance with HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are set out in note 42.

2. ADOPTION OF NEW AND AMENDED HKFRSs *(cont'd)*

HKFRS 7 – Financial Instruments: Disclosures

This is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 "Financial Instruments: Presentation and Disclosures" and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments; and

- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items. These disclosures are provided throughout these financial statements, and in particular, in note 41 to the financial statements.

New and amended HKFRSs that have been issued but not yet effective

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 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[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]

Note

[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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

(c) Subsidiaries and minority interests

Subsidiaries are entities over which the Group has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than those for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(c) Subsidiaries and minority interests *(cont'd)*

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

(d) Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3 (k)) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(d) Associates *(cont'd)*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investment in associates are stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(e) Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

(f) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax where applicable, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of significant risks and rewards of ownership to the customers. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(g) Borrowing costs

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

(h) Goodwill

Goodwill represents the excess of the cost of a business combination or investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the Group's interest in the associate, and is assessed for the impairment as part of the investment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

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

(i) Construction in progress

Construction in progress ("CIP") represented assets under construction and is stated at cost less accumulated impairment losses. Cost includes direct costs incurred during the periods of construction, installation and testing plus interest charges arising from borrowings used to finance these assets during the construction period. No depreciation is provided on CIP until the relevant assets are completed and ready for use. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate category of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	The shorter of the lease terms and 5%
Plant and machinery	10%
Leasehold improvements	$33\,^{1}/_{3}$%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

The assets' estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(j) Property, plant and equipment *(cont'd)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(k) Impairment of assets

Goodwill, property, plant and equipment, leasehold land and land use rights and interests in subsidiaries and associate are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment loss recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

An impairment loss on goodwill is not reversed in subsequent periods whilst an impairment loss on other assets is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Leases

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

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(l) Leases *(cont'd)*

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line method over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statements as an integral part of the aggregate net lease payment made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

Land use rights or prepaid land lease payments are up-front payments to acquire the long term interests in usage of land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line method over the lease term.

(m) Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Trade and other receivables

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

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of other categories of financial assets. For available-for-sales investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on trade and other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(m) Financial assets *(cont'd)*

Impairment of financial assets (cont'd)

(i) Financial assets carried at amortised cost *(cont'd)*

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

(ii) Available-for-sale financial assets

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises direct materials, direct labour and an appropriate proportion of overheads, based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(o) Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claim from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

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

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

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

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

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(p) Cash and cash equivalents *(cont'd)*

Cash and cash equivalents include cash at banks and on hand, demand deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(q) Share capital

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

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

(r) Share-based compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees and its directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to share-based compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in equity will be transferred to retained earnings.

(s) Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

In Hong Kong, the Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("the MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all employees in Hong Kong. Contributions are made based on 5% of the employees' basic salaries, subject to a cap of monthly relevant salaries of HK$20,000 and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(s) Retirement benefits costs and short term employee benefits *(cont'd)*

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal government in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan ("Employer contributions"). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(t) Financial liabilities

The Group's financial liabilities include bank loans, other loans, convertible notes, amounts due to ultimate holding company, related companies, minority equity holders of subsidiaries and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Borrowings

Borrowings, which include bank loans and other loans, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(t) Financial liabilities *(cont'd)*

Convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs related to the issue of the convertible notes are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in income statement.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest rate method.

If the note is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in income statement.

Other financial liabilities

Trade and other payables, amounts due to ultimate holding company, related companies and minority equity holders of subsidiaries are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(u) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, leasehold land land use rights, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(v) Financial guarantees issued

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(v) Financial guarantees issued *(cont'd)*

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

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

(w) Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company or Group; (2) has an interest in the Company that gives it significant influence over the Company or Group; or (3) has joint control over the Company or Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of assets

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(ii) Valuation for convertible notes

On 20 April 2007, a wholly-owned subsidiary of the Company issued a zero coupon convertible notes with an aggregate principal amount of HK$300,000,000. The convertible notes were issued at the initial conversion price of HK$2.33 per share and will mature on 19 April 2012. The embedded derivatives consisting of the conversion and redemption options have been separated from the host debt contract and accounted for as derivative using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and balance sheet date. The valuation model requires the input of subjective assumptions, including the stock price, expected volatility and risk free rate. Changes in subjective input assumptions can materially affect the fair value estimate. For the year ended 31 December 2007, the fair value loss resulting from change in fair value of the derivative component of convertible notes was approximately HK$21,038,000, details of which are set out in note 32 to the financial statements.

(iii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and the current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

5. REVENUE

Revenue represents total invoiced value of goods supplied during the year and is analysed as follows:

	2007 HK$'000	2006 HK$'000
Sales of coal products	**14,256**	9,534
Sales of jewellery products	**800**	1,001
	15,056	10,535

6. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments.

An analysis of the Group's revenue and segment results by principal activities is as follows:

	Revenue		Segment results	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Business segments:				
Sales of coal products	**14,256**	9,534	**1,050**	933
Production of coke products*	**–**	–	**(12,668)**	(17,732)
Sales of jewellery products	**800**	1,001	**800**	1,001
Unallocated expenses	**–**	–	**(31,753)**	(20,288)
	15,056	10,535	**(42,571)**	(36,086)
Finance costs			**(22,482)**	(9,028)
Fair value loss on derivative liability of convertible notes (note 32)			**(21,038)**	–
Loss for the year			**(86,091)**	(45,114)

There was no inter-segment sale and transfer during the year (2006: Nil).

An analysis of the Group's assets, liabilities and capital expenditure as at 31 December 2007 by principal activities is as follows:

	Assets		Liabilities		Capital expenditure	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Business segments:						
Sales of coal products	**4,789**	2,495	**2,294**	–	**–**	–
Production of coke products*	**948,065**	503,022	**449,535**	407,645	**102,834**	26,163
Sales of jewellery products	**–**	–	**–**	–	**–**	–
Unallocated	**342,230**	11,587	**51,245**	9,879	**3**	4
	1,295,084	517,104	**503,074**	417,524	**102,837**	26,167

6. SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – business segments *(cont'd)*

An analysis of the Group's depreciation and amortisation charged for the year by principal activities is as follows:

	Depreciation		Amortisation	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Business segments:				
Sales of coal products	**–**	–	**–**	–
Production of coke products*	**2,352**	2,417	**343**	323
Sales of jewellery products	**–**	–	**–**	–
Unallocated	**403**	406	**107**	107
	2,755	2,823	**450**	430
Less: Depreciation capitalised in CIP (note 15)	**–**	(180)	**–**	–
	2,755	2,643	**450**	430

* *The Group has not yet commenced the commercial production of coke products during the years presented.*

(b) Secondary reporting format – geographical segments

An analysis of the Group's revenue, segment results for the year, the Group's assets as at 31 December 2007 and capital expenditure incurred for the year by geographical segments is as follows:

	Revenue		Segment results		Total assets		Capital expenditure	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Principal markets								
PRC	**14,256**	9,534	**(11,618)**	(17,022)	**952,854**	505,517	**102,834**	26,163
Hong Kong	**800**	1,001	**(30,953)**	(19,064)	**342,230**	11,587	**3**	4
	15,056	10,535	**(42,571)**	(36,086)	**1,295,084**	517,104	**102,837**	26,167

The business of jewellery ("the jewellery segment") was ceased in 2006 due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery was completed on 28 February 2007.

As at 31 December 2007 and 31 December 2006, other than the intra-group balances, there were no other assets and liabilities remained within the jewellery segment. As a result, there was no gain or loss arose on the cessation of the jewellery segment. During the year ended 31 December 2007, sales arising from the jewellery segment contributed operating cash inflows of HK$800,000 (2006: HK$1,001,000) and this segment had no cash flows arising from investing or financing activities in both 2007 and 2006.

7. OTHER OPERATING INCOME

	2007 HK$'000	2006 HK$'000
Bank interest income on escrow account	**7,042**	–
Other bank interest income	**8,100**	275
	15,142	275

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest charges on:		
– Bank loans repayable within five years	**3,765**	3,295
– Other loans wholly repayable within five years	**11,125**	14,399
– Amounts due to related companies wholly repayable within five years	**1,069**	969
– Amounts due to minority equity holders of subsidiaries wholly repayable within five years	**4,412**	3,166
– Convertible notes wholly repayable within five years	**15,189**	–
Total borrowing costs	**35,560**	21,829
Less: interest capitalised in CIP*	**(13,078)**	(12,801)
	22,482	9,028

* *The borrowing costs have been capitalised at the rates ranging from 6.00% to 7.00% per annum (2006: 6.00% to 8.00% per annum).*

9. LOSS BEFORE INCOME TAX

	2007 HK$'000	2006 HK$'000
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	**14,006**	9,602
Less: Write back of provision upon sales	**(800)**	(1,001)
Cost of sales	**13,206**	8,601
Staff costs (including directors' remuneration and retirement benefits scheme contributions) *(note 13)*	**31,323**	21,007
Depreciation of property, plant and equipment	**2,755**	2,823
Less: Amount capitalised in CIP *(note 15)*	**–**	(180)
	2,755	2,643
Amortisation of operating lease prepayments	**450**	430
Auditors' remuneration		
– audit services	**440**	380
– other services	**3,278**	10
Operating leases charges in respect of land and buildings	**905**	659

10. INCOME TAX EXPENSE

(a) No provision for Hong Kong profits tax and the PRC income tax has been made in the financial statements in respect of the Company and its subsidiaries for the year (2006: Nil), as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for setting off against current year's assessable profits or did not generate any assessable profits in Hong Kong and the PRC for the year.

(b) Reconciliation between income tax expense and accounting loss at applicable tax rates is as follows:

	2007		2006	
	HK$'000	**%**	HK$'000	%
Loss before income tax	**(86,091)**		(45,114)	
Notional tax on loss before income tax, calculated at the rates applicable to the tax jurisdiction concerned	**(18,330)**	**21.3**	(11,804)	26.2
Tax effect of non-deductible expenses	**18,410**	**(21.4)**	10,467	(23.2)
Tax effect of non-taxable income	**(1,771)**	**2.1**	(332)	0.7
Tax effect of temporary differences not recognised	**(28)**	**–**	(19)	–
Tax effect of unused tax losses not recognised	**1,719**	**(2)**	1,688	(3.7)
Income tax expense	**–**	**–**	–	–

11. LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year attributable to the equity holders of the Company of HK$77,948,000 (2006: HK$30,988,000), a loss of HK$28,790,000 (2006: HK$18,773,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share attributable to the equity holders of the Company is based on the consolidated loss attributable to the equity holders of the Company of HK$77,948,000 (2006: HK$30,988,000) and the weighted average number of 2,277,844,621 (2006: 2,080,800,000) ordinary shares in issue during the year.

Subsequent to the balance sheet date and up to this date of these financial statements, the remaining principal amount of HK$40,000,000 of the convertible notes was converted into 17,167,381 fully paid up ordinary shares. As a result, the Company's issued ordinary shares have increased and potential ordinary shares have decreased accordingly after the balance sheet date.

Diluted loss per share for the years ended 31 December 2007 and 2006 was not presented because the impact of the exercise of the share options and the convertible notes was anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2007 HK$'000	2006 HK$'000
Wages and salaries	**12,134**	8,448
Share-based compensation expense *(note 34)*	**19,429**	12,953
Unutilised annual leave	**90**	25
Contributions to retirement benefits scheme	**69**	66
	31,722	21,492
Less: Wages and salaries capitalised in CIP	**(399)**	(485)
	31,323	21,007

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Executive directors and non-executive directors

	2007					2006				
	Fees HK$'000	**Salaries, allowances and benefits in kind HK$'000**	**Retirement benefits scheme contributions HK$'000**	**Share based compensation expense HK$'000**	**Total HK$'000**	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retiremen benefits scheme contributions HK$'000	Share based compensation expense HK$'000	Total HK$'000
Executive directors										
Mr. Wong Lik Ping	**-**	**1,671**	**12**	**517**	**2,200**	–	1,395	12	345	1,752
Mr. So Kwok Hoo	**-**	**1,352**	**12**	**1,681**	**3,045**	–	1,118	12	1,121	2,251
Non-executive director										
Mr. Li King Luk	**-**	**-**	**-**	**-**	**-**	–	–	–	–	–
Independent non-executive directors										
Mr. Kee Wah Sze	**60**	**-**	**-**	**207**	**267**	60	–	–	138	198
Mr. Choi Wai Yin	**60**	**-**	**-**	**207**	**267**	60	–	–	138	198
Mr. Chan Pat Lam	**60**	**-**	**-**	**207**	**267**	60	–	–	138	198
	180	**3,023**	**24**	**2,819**	**6,046**	180	2,513	24	1,880	4,597

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

During the year ended 31 December 2007, no share options were granted to the directors in respect of their services to the Group. During the year ended 31 December 2006, share options of 2,000,000, 6,500,000, 800,000, 800,000 and 800,000 were granted to Wong Lik Ping, So Kwok Hoo, Kee Wah Sze, Choi Wai Yin and Chan Pat Lam in respect of their services to the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,429**	1,157
Contributions to retirement benefits schemes	**24**	24
Share-based compensation expense	**2,257**	1,562
	3,710	2,743

The emoluments of the three (2006: three) individuals with the highest emoluments are within the following bands:

Emolument bands	**2007 Number of individuals**	2006 Number of individuals
Nil – HK$1,000,000	**–**	2
HK$1,000,001 – HK$1,500,000	**3**	1

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2006: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	CIP HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2006								
Cost	209,550	7,735	4,131	696	496	96	7,590	230,294
Accumulated depreciation	–	(1,586)	(690)	(696)	(294)	(87)	(3,877)	(7,230)
Net carrying amount	209,550	6,149	3,441	–	202	9	3,713	223,064
Year ended 31 December 2006								
Opening net book amount	209,550	6,149	3,441	–	202	9	3,713	223,064
Exchange differences	8,545	97	130	–	4	–	92	8,868
Additions	24,607	–	1,532	–	23	5	–	26,167
Depreciation	–	(389)	(443)	–	(58)	(6)	(1,927)	(2,823)
Closing net carrying amount	242,702	5,857	4,660	–	171	8	1,878	255,276
At 31 December 2006								
Cost	242,702	7,850	5,831	696	527	101	7,876	265,583
Accumulated depreciation	–	(1,993)	(1,171)	(696)	(356)	(93)	(5,998)	(10,307)
Net carrying amount	242,702	5,857	4,660	–	171	8	1,878	255,276
Year ended 31 December 2007								
Opening net book amount	**242,702**	**5,857**	**4,660**	**–**	**171**	**8**	**1,878**	**255,276**
Exchange differences	**20,900**	**202**	**371**	**–**	**7**	**–**	**65**	**21,545**
Additions	**99,027**	**389**	**1,411**	**–**	**276**	**–**	**1,180**	**102,283**
Depreciation	**–**	**(402)**	**(649)**	**–**	**(90)**	**(4)**	**(1,610)**	**(2,755)**
Closing net carrying amount	**362,629**	**6,046**	**5,793**	**–**	**364**	**4**	**1,513**	**376,349**
At 31 December 2007								
Cost	**362,629**	**8,490**	**7,744**	**696**	**820**	**101**	**9,688**	**390,168**
Accumulated depreciation	**–**	**(2,444)**	**(1,951)**	**(696)**	**(456)**	**(97)**	**(8,175)**	**(13,819)**
Net carrying amount	**362,629**	**6,046**	**5,793**	**–**	**364**	**4**	**1,513**	**376,349**

During the year, no depreciation was capitalised in the CIP (2006 : HK$108,000).

15. PROPERTY, PLANT AND EQUIPMENT *(con'd)*

Company

	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1 January 2006				
Cost	696	318	91	1,105
Accumulated depreciation	(696)	(241)	(85)	(1,022)
Net carrying amount	–	77	6	83
Year ended 31 December 2006				
Opening net book amount	–	77	6	83
Additions	–	2	2	4
Depreciation	–	(22)	(4)	(26)
Closing net carrying amount	–	57	4	61
At 31 December 2006				
Cost	696	320	93	1,109
Accumulated depreciation	(696)	(263)	(89)	(1,048)
Net carrying amount	–	57	4	61
Year ended 31 December 2007				
Opening net book amount	**–**	**57**	**4**	**61**
Additions	**–**	**3**	**–**	**3**
Depreciation	**–**	**(20)**	**(2)**	**(22)**
Closing net carrying amount	**–**	**40**	**2**	**42**
At 31 December 2007				
Cost	**696**	**323**	**93**	**1,112**
Accumulated depreciation	**(696)**	**(283)**	**(91)**	**(1,070)**
Net carrying amount	**–**	**40**	**2**	**42**

16. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interests in leasehold land and land use rights represent the prepaid land lease payments under operating leases. Their net book values are analysed as follows:

	2007 HK$'000	2006 HK$'000
In Hong Kong held on:		
– Leases of over 50 years	**4,281**	4,388
In the PRC held on:		
– Leases of between 10 to 50 years	**13,518**	12,776
	17,799	17,164
Opening net carrying amount	**17,164**	17,088
Exchange differences	**1,085**	506
Amortisation of prepaid lease prepayments	**(450)**	(430)
Closing net carrying amount	**17,799**	17,164

The balance as at 31 December 2007 includes certain land use rights in the PRC with a net book value of approximately HK$3,953,000 (2006: HK$3,764,000) of which the Group is still in the progress of applying the land use right certificates.

17. GOODWILL – GROUP

Goodwill as at 31 December 2007 arose from further acquisition of equity interest in Shanxi Yao Zin and Jinshan respectively whilst the balance carried forward from 31 December 2006 had been fully impaired in the previous years. The net carrying amount of goodwill is analysed as follows:

	2007 HK$'000	2006 HK$'000
Cost		
At 1 January	**2,010**	2,010
Goodwill arose from further increase in equity interest in subsidiaries during the year	**15,703**	–
At 31 December	**17,713**	2,010
Accumulated impairment losses		
At 1 January and 31 December	**(2,010)**	(2,010)
Net carrying amount at 31 December	**15,703**	–

The carrying amount of goodwill has been allocated to the cash-generating units for impairment testing. The recoverable amount of the cash-generating unit was determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of discounted cash flows. The Group management's key assumptions have been determined based on its expectations for the market development. The discount rate used reflects specific risks relating to the business and the growth rate is adjusted for the industry benchmark.

The discount rate and growth rate used in cashflow projection are shown as below:

Growth rate	8%
Discount rate	12%

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2007 HK$'000	2006 HK$'000
Investments at cost		
Unlisted shares	**22,256**	22,256
Less: Provision for impairment	**(22,256)**	(22,256)
	–	–

Particulars of the subsidiaries at 31 December 2007 are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Percentage of issued capital held by the Group 2007	2006
Shanxi Jinshan Energy Limited ("Jinshan")*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB400,000,000 *(Note a)*	**91%**	65%
Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng")*	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB30,000,000	**64%#**	46%#
Liulin Luenshan Coking Company Limited ("Luenshan")*	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB30,000,000	**59%#**	42%#
Fushan Energy Group Limited	British Virgin Islands, limited liability company	Investment holding in the PRC	1 ordinary share of US$1 each	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Jewellery retailing and wholesaling in Hong Kong	2,000,000 ordinary shares of HK$1 each	**100%**	100%
Fu Hui Investments Limited	Hong Kong, limited liability company	Provision of financing arrangements in Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%
Jumbo Hall International Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%
New Honest Limited `	British Virgin Islands, limited liability company	Investment holding in the PRC	1 ordinary share of US$1 each	**100%**	100%
Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin")	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB320,000,000 *(Note b)*	**66%**	51%

18. INTERESTS IN SUBSIDIARIES – COMPANY *(cont'd)*

Name	incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Percentage of issued capital held by the Group	
				2007	2006
Maxease Limited ("Maxease")	British Virgin Islands, limited liability company	Vehicle for financing arrangement	1 ordinary share of US$1 each	**100%**	100%
Full Bright International Limited	New York, U.S.A., limited liability company	Dormant	US $ 183,750	**100%**	100%

* These companies are indirectly held by the Company and are joint ventures incorporated in the PRC with limited liability.

\# These companies are subsidiaries of Jinshan as Jinshan holds more than half of the voting power of these companies and accordingly, are accounted for as subsidiaries of the Company.

Note a: In November 2007, the Group and minority equity holders of Jinshan entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase Jinshan's registered capital from RMB100,000,000 to RMB400,000,000. The increase in registered capital amounted to RMB300,000,000 shall all be contributed by the Group. As a result of the change in equity interest, as at 31 December 2007, the Group's equity interest in Jinshan increased from 65% to 91.25% accordingly. As at 31 December 2007, the registered capital not yet contributed by the Group amounted to RMB206,034,000.

Note b: In July 2007, the Group and two minority equity holders of Shanxi Yao Zin entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase Shanxi Yao Zin's registered capital from RMB80,000,000 to RMB320,000,000. The increase in registered capital amounted to RMB240,000,000, of which an amount of RMB170,400,000 shall be contributed by the Group whilst the remaining amount of RMB69,600,000 shall be contributed by one of the minority equity holders of Shanxi Yao Zin. As a result of the change in equity interest, as at 31 December 2007, the Group's equity interest in Shanxi Yao Zin increased from 51% to 66% accordingly. As at 31 December 2007, the registered capital not yet contributed by the Group and other minority equity holders amounted to RMB30,400,000 and RMB89,200,000 respectively.

19. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2007 HK$'000	2006 HK$'000
Amounts due from subsidiaries	**811,713**	232,660
Loans to subsidiaries	**126,598**	–
Less: Provision for impairment	**(150,654)**	(150,654)
	787,657	82,006
Less: Amounts due within one year included under current assets	**(661,059)**	(82,006)
Loans to subsidiaries under non-current assets	**126,598**	–

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Loans to subsidiaries are unsecured, interest bearing at 7.50% per annum and are repayable in April 2009. Included in the balance is interest receivable of HK$5,058,000 (2006: Nil) which is repayable together with the principal debts on the maturity date.

The directors consider that the carrying amounts of the balances approximate to their fair values.

20. INTERESTS IN ASSOCIATE

	Group		**Company**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Unlisted shares, at cost	**–**	–	**4**	4
Share of net assets	**–**	–	**–**	–
Amounts due from associate	**3,739**	3,739	**3,739**	3,739
	3,739	3,739	**3,743**	3,743
Less: Provision for impairment	**(3,739)**	(3,739)	**(3,743)**	(3,743)
	–	–	**–**	–

Amounts due from associate are unsecured, interest-free and not repayable within 12 months from the balance sheet date.

20. INTERESTS IN ASSOCIATE *(cont'd)*

Particulars of the associate at 31 December 2007 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Assets	Liabilities	Revenue	Results	Percentage of interest held by the Group/Company	
				HK$'000	HK$'000	HK$'000	HK$'000	**2007**	2006
Real Wide Limited	Hong Kong	The PRC (in voluntary liquidation)	100 ordinary shares of HK$1 each	–	–	–	–	**45%**	45%

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS-GROUP

	2007 HK$'000	2006 HK$'000
Unlisted investment, at cost	**7,597**	–

As at 31 December 2007, the Group had a 7% equity interest in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business at the balance sheet date and will be engaged in transportation industry. In the opinion of directors, no impairment in value is considered necessary.

22. PREPAYMENTS AND DEPOSITS-GROUP

	2007 HK$'000	2006 HK$'000
Deposit for a potential mining project	**152,896**	144,138
Prepayments for the construction and installation of property, plant and equipment	**152,663**	83,796
Deposit paid to a minority equity holder of a subsidiary for the purchases of raw coal	**32,559**	–
Prepayments for land-use rights	**51,319**	–
	389,437	227,934

23. INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials – Jewellery	**–**	89,122	**–**	89,122
Less: Provision for inventories	**–**	(89,122)	**–**	(89,122)
	–	–	**–**	–

Provision for inventories of HK$88,322,000 (2006: HK$78,503,000) was reversed against the inventory cost during the year. The remaining provision of HK$800,000 has been released to the cost of inventories as the related inventories were sold during the year.

24. TRADE RECEIVABLES

General credit terms of the Group and the Company range from 60 to 90 days. At 31 December 2007, all trade receivables of the Group and the Company are aged within 60 days (2006: 30 days).

The balances of the Group and the Company as at 31 December 2007 are denominated in Renminbi ("RMB") whilst those as at 31 December 2006 were denominated in HK$.

The carrying value of trade receivables is considered as reasonable approximation of fair value. Impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors and default or delinquency in payments are considered indicators that the trade receivables are impaired. The Group's receivables have been reviewed and none of them were found to have such indicators of impairment as at balance sheet date. The Group does not hold any collateral over these balances.

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. There were no receivables that were past due but not impaired at the balance sheet date. Based on past experience, the directors believe that no impairment allowance is necessary in respect of the balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**165,617**	8,573	**7,542**	1,299
Short term bank deposits*	**294,921**	2,000	**–**	2,000
	460,538	10,573	**7,542**	3,299

* Short term bank deposits as at 31 December 2007 represents the net proceeds collected from the issue of the convertible notes on 20 April 2007 together with bank interest earned and the whole amount was placed at an escrow account until Conditions Subsequent as disclosed in note 32 to the financial statements were fulfilled. As all convertible notes have been converted into shares even though Conditions Subsequent was not fulfilled in January 2008, the deposits placed at the escrow account were transferred to the bank account of the Group.

25. CASH AND CASH EQUIVALENTS *(cont'd)*

Cash at banks earn interest at floating rates based on the daily bank deposit rates. Short-term bank deposits are made for varying periods of one week to one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates ranging from 2.00% to 4.50% (2006: 0.54% to 4.26%) per annum.

As at 31 December 2007, included in cash and cash equivalents of the Group is HK$126,201,000 (2006: HK$7,265,000) of cash and bank balances denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency.

26. TRADE PAYABLES-GROUP

The Group was granted by its suppliers' credit periods ranging from 30 to 90 days. Based on the invoice dates, the Group's trade payables at the balance sheet date were all aged within 60 days. As at the balance sheet date, all trade payables of the Group were denominated in RMB.

27. BANK LOANS – GROUP

All bank loans at the balance sheet dates are due within one year and denominated in RMB. These loans are jointly and severally guaranteed by the Company's subsidiary and a minority equity holder of that subsidiary. All bank loans are interest bearing at a fixed rate of 8.54% (2006: 6.34%) per annum.

28. OTHER LOANS – GROUP

At 31 December 2007, other loans, obtained from a third party, were repayable as follows:

	2007 HK$'000	2006 HK$'000
Current portion – within 1 year	**130,323**	89,882
Non-current portion – between 1 and 2 years	**–**	141,995
	130,323	231,877

At 31 December 2007, other loans, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 5.49% to 12.00% per annum (2006: 5.49% to 12.00% per annum).

29. AMOUNTS DUE TO RELATED COMPANIES – GROUP

As at 31 December 2007, an amount of HK$9,253,000 (2006: Nil), denominated in RMB, was due to a related company in which a director of the Company is also a substantial equity holder. This balance is unsecured, interest free and repayable on demand.

The remaining balance amounting to HK$16,654,000 (2006: HK$25,820,000) is unsecured, interest bearing at 7.00% (2006: 7.00%) per annum and repayable on 31 December 2008.

30. AMOUNTS DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES-GROUP

As at 31 December 2007, an amount of HK$56,435,000 (2006: HK$1,998,000), denominated in RMB, is unsecured, interest-free and repayable on demand.

As at 31 December 2007, another amount of HK$29,154,000 (2006: HK$17,987,000), denominated in RMB is unsecured, interest-free and is due on 31 December 2008.

The remaining amount of HK$33,769,000 (2006: HK$43,439,000) is due one year after the related subsidiary has commenced its production. As at 31 December 2007, this subsidiary was still in its pre-operating period. The balance is unsecured and interest is charged on the outstanding amount at the rates ranging from 6.00% to 7.00% (2006: 6.00% to 7.00%) per annum.

31. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The balance was unsecured and interest-free. The balance has been fully repaid during the year.

32. CONVERTIBLE NOTES – GROUP

On 20 April 2007, the zero coupon convertible notes in the principal amount of HK$300,000,000 (the "Notes") were issued by Maxease, a wholly-owned subsidiary of the Group. The Notes are jointly and severally guaranteed by the Company and Mr. Wong Lik Ping who is a substantial shareholder and a director of the Company. The Notes, with the maturity date on 19 April 2012 (the "Maturity Date"), are convertible into shares of the Company with a par value of HK$0.10 at the initial conversion price of HK$2.33 (the "Conversion Price") per share at any time following the issue of the Notes until 10 business days prior to the Maturity Date.

The Conversion Price is to be adjusted on each of the first and second anniversaries of the issue date if the Company's weighted average trading price over the preceding calendar month (the "Reference Price") is less than 85% of the Conversion Price then in effect. The adjusted Conversion Price will be equal to the Reference Price, provided that any adjustment to the Conversion Price pursuant to the reset on a cumulative basis will be limited to 80% of the initial Conversion Price (i.e. HK$1.864). The conversion is also subject to dilutive effect adjustments.

On the date falling 12 months following the issue date of the Notes if, by such date, the Company has not either invested into greenfield coalmine with the appropriate and necessary mining rights, or purchased coal mine assets that are already in operation (the "Conditions Subsequent"), the Notes may be redeemed at the option of the noteholders at a price that is equivalent to a yield of 7.5% per annum on a semi-annual basis (the "Early Redemption Price"). The net proceeds of the Notes are currently deposited at the escrow account until the Conditions Subsequent are fulfilled. As at 31 December 2007, the Company has not yet fulfilled the Conditions Subsequent.

On the date falling 36 months following the issue date of the Notes, the Notes may be redeemed at the option of the noteholders at 124.7179% of their principal value which will enable the noteholders to obtain a yield of 7.5% per annum on a semi-annual basis. At any time after the 36th month of the issue date of the Notes, Maxease may redeem the Notes, in whole or in part at any time, at the Early Redemption Price; provided that the trading price of the Company's shares exceeds 140% of the Conversion Price for a consecutive period of not less than 30 trading days. If at least 90% of the Notes have been converted, redeemed, repurchased or cancelled, the Company is entitled to have clean-up call at the Early Redemption Price. Furthermore, the Notes may be redeemed at Maxease's option, in whole but not in part at any time, at the Early Redemption Price, in the event that Maxease or the Company would be required to pay the additional amounts in respect of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong (or any other taxing jurisdiction to which Maxease or the Company becomes subject) in relation to taxes or any change in the official interpretation thereof.

32. CONVERTIBLE NOTES – GROUP *(cont'd)*

Unless previously redeemed, converted or purchased and cancelled, the Notes shall be redeemed on the Maturity Date at 144.5044% of the principal value, which shall give the Notes a yield equal to 7.5% per annum on a semi-annual basis from the time of the issue on 20 April 2007.

The initial carrying amount of the liability component of the Notes is the amount after deducting the fair value of the derivative component. The derivative component is subsequently measured at fair value through profit or loss and the liability is subsequently carried at amortised cost.

The movements in the Notes during the year are analysed as follows:

	2007				2006
	Face value HK$'000	Liability component HK$'000	Derivative component HK$'000	Total HK$'000	HK$'000
Proceeds of issue during the year	300,000	244,422	55,578	300,000	–
Transaction costs	–	(10,478)	–	(10,478)	–
Fair value loss on derivative component of the Notes	–	–	21,038	21,038	–
Interest expense	–	15,189	–	15,189	–
Conversion into ordinary shares	(260,000)	(215,119)	(65,700)	(280,819)	
At 31 December	40,000	34,014	10,916	44,930	–

The fair value of the derivative component of the Notes was calculated using the Monte Carlo Simulation Model with the major inputs as at 20 April 2007 and 31 December 2007 as follows:

	20 April 2007	31 December 2007
Stock price	HK$2.37	HK$5.03
Exercise price	HK$2.33	HK$2.33
Volatility	58.26%	61.51%
Risk free rate	4.05%	3.096%

As the Monte Carlo Simulation Model requires the input of highly subjective assumptions, including volatility of share price, change in subjective input assumptions can materially affect the fair value estimate.

During the year, as there was a significant increase in the share price of the Company, the fair value of derivative component of the Notes increased accordingly, resulting in a fair value loss of HK$21,038,000. Moreover, the Notes with face value of HK$260,000,000 were converted into 111,588,000 shares of the Company at a conversion price of HK$2.33 per share during the year.

Interest expense on the Notes is calculated using the effective interest method by applying the effective interest rate of 12.15% per annum to the liability component of the Notes.

33. SHARE CAPITAL

	Number of shares		Group and Company	
	2007 **'000**	2006 '000	**2007** **HK$'000**	2006 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	**5,000,000**	5,000,000	**500,000**	500,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**2,080,800**	2,080,800	**208,080**	208,080
Issue of new shares *(Note (a))*	**230,000**	–	**23,000**	–
Issue of new shares upon conversion of the Notes *(Note (b))*	**111,588**	–	**11,159**	–
At 31 December	**2,422,388**	2,080,800	**242,239**	208,080

Notes

(a) The Company and the placing agent entered into a placing agreement on 15 March 2007 pursuant to which the placing agent has conditionally agreed to procure the placees for a maximum of 230,000,000 new Shares (the "Placing Shares"), at a price of HK$2.00 per share, on a best effort basis. On 2 April 2007, 230,000,000 Placing Shares were issued under the general mandate granted to the directors at the Company's annual general meeting held on 16 June 2006. Details of the transactions are set out in the Company's announcements dated 20 March 2007 and 2 April 2007. The net proceeds of approximately HK$443,530,000 from the the Placing Shares were received.

(b) As described in note 32, the Notes with the principal amount of HK$300,000,000 were issued on 20 April 2007 and are convertible into shares of the Company at the Conversion Price (HK$2.33 per share) within certain periods and conditions. Up to the balance sheet date, the principal amount of HK$260,000,000 of the Notes has been converted into 111,588,000 shares of the Company at the Conversion Price.

34. SHARE OPTION SCHEME

At the Company's annual general meeting held on 20 June 2003, a new option scheme (the "Scheme") was approved which empowers the directors to implement and administer the Scheme with effect from the date of the resolution. The Scheme is designed to reward and provide incentives to, and strengthen the Group's business relationship with the prescribed classes of participants, including but not limited to eligible employees and directors of any member of the Group, who have contributed to the development of the Group. The Scheme is enforcable for a period of ten years ending on 19 June 2013, after which no further options are to be granted.

The exercise price of the options is to be determined by the directors and is at least the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated as Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant. No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date as determined by the directors, but in any event not more than 10 years from the date of grant. Options granted to a substantial equity holder or any independent non-executives of the Company in excess of 0.1% of the issued capital of the Company and with an aggregate value in excess of HK$5 million must be approved in advance by the equity holders of the Company.

34. SHARE OPTION SCHEME *(cont'd)*

The total number of shares available for issue under the share option scheme as at 31 December 2007 was 104,080,000 (2006: 104,080,000) which represents 4% (2006: 5%) of the Company's issued shares at 31 December 2007. The number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

All share-based compensation is settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options. All share options granted are accounted for under HKFRS 2. Share options and exercise price for the year ended 31 December 2007 are as follows.

	2007		2006	
	Number '000	**Exercise price HK$**	Number '000	Exercise price HK$
Outstanding at 1 January	**104,000**	**1.5**	–	–
Granted	**–**	**–**	104,000	1.5
Outstanding at 31 December	**104,000**	**1.5**	104,000	1.5

The exercise date of the outstanding options is on 26 April 2008. There were no options granted in 2007. The fair values of options granted in 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included an expected volatility of 57.33%, estimated weighted average expected life of 2.1 years, risk-free interest rate of 4.27%, no dividend yield and estimated employees' turnover rate of 15%. The expected volatility was determined with reference to the historical volatility based on the Company's daily average closing price from 26 April 2004 to 25 April 2006. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. The risk-free interest rate was determined with reference to the corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of options granted.

The fair value of the options granted in 2006, measured at the date of grant on 26 April 2006, totalled approximately HK$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount is recognised as a share-based compensation expense in the income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, an amount of HK$19,429,000 (2006: HK$12,953,000) was recognised as an expense in the income statement with a corresponding credit in share-based compensation reserve during the year. No liabilities were recognised due to share-based payment transactions.

35. RESERVES

Group

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

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

Company

	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2006	399,169	(526,912)	–	(127,743)
Share-based compensation	–	–	12,953	12,953
Loss for the year	–	(18,773)	–	(18,773)
At 31 December 2006	399,169	(545,685)	12,953	(133,563)
At 1 January 2007	**399,169**	**(545,685)**	**12,953**	**(133,563)**
Share-based compensation	**–**	**–**	**19,429**	**19,429**
Issue of new shares at premium	**420,530**	**–**	**–**	**420,530**
Issue of new shares upon conversion of the convertible notes	**269,660**	**–**	**–**	**269,660**
Loss for the year	**–**	**(28,790)**	**–**	**(28,790)**
At 31 December 2007	**1,089,359**	**(574,475)**	**32,382**	**547,266**

36. DEFFERED TAX

As at 31 December 2007, there is no significant deferred tax liability (2006: Nil).

As at 31 December 2007, no deferred tax assets have been recognised (2006: Nil) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Deductible temporary differences	**6,164**	7,196	**395**	409
Tax losses	**199,940**	191,822	**159,540**	151,866
	206,104	199,018	**159,935**	152,275

The Group has tax losses of approximately HK$6,109,000 (2006: HK$5,755,000) which shall expire in four to five years and tax losses of approximately HK$193,831,000 (2006: HK$186,067,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Company has tax losses arising in Hong Kong of approximately HK$159,540,000 (2006: HK$151,866,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

37. CAPITAL COMMITMENTS

The Group's capital commitments as at 31 December 2007 are as follows:

	2007 **HK$'000**	2006 HK$'000
Contracted but not provided for:		
– Acquisition of property, plant and equipment	**374,271**	112,895
– Exploration and design fees for a potential mining project	**8,118**	7,604
	382,389	120,499

The Company does not have any capital commitments as at 31 December 2007 and 2006.

38. OPERATING LEASE COMMITMENTS

As at 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group as follows:

	2007 **HK$'000**	2006 HK$'000
Within one year	**716**	659
In the second to fifth years	**2,863**	2,636
After five years	**27,552**	26,027
	31,131	29,322

The Group leases certain land and buildings under operating lease arrangements for terms ranging from 2 to 50 years, without option to renew the lease term at the expiry date. None of the lease includes contingent rentals.

The Company did not have any significant operating lease commitments as at 31 December 2007 (2006: Nil).

39. CONTINGENT LIABILITIES

At 31 December 2006, the Group borrowed an amount of RMB50,000,000 (equivalent to approximately HK$49,963,000) from a third party (the "Lender"), who in turn had borrowed the same amount from a financial institution. As a part of this funding arrangement, the Group and two subsidiaries of a minority equity holder of the Group have given joint and several guarantee for the amount borrowed by the Lender to the financial institution. At 31 December 2007, the relevant borrowing has been fully repaid.

40. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in these financial statements, the following transactions were carried out with related parties:

(a) China Merit Limited granted an advance of HK$10,000,000 to the Company on 11 August 2005 (note 31). This amount was fully repaid during the year ended 31 December 2007. Details of other borrowings from other related parties are disclosed in notes 29 and 30 to the financial statements respectively.

(b) During the year, the Notes (note 32) are jointly and severally guaranteed by the Company and Mr. Wong Lik Ping, being a substantial shareholder and a director of the Company at a nil consideration.

(c) During the year, Luenshan has drawn down a banking facility denominated in RMB amounting to HK$54,265,000 (2006: HK$49,963,000) from a financial institution. Jinshan, the immediate holding company of Luenshan, and a subsidiary of a minority equity holder of Luenshan have given joint and several guarantees to secure the banking facility.

(d) In December 2007, the Group entered into a coal supply contract with a subsidiary of a minority equity holder of Luenshan for the supply of raw coal for the period from 4 February 2008 to 31 December 2010. The transaction constitutes a continuing connected transaction of the Company and has been approved at the special general meeting held on 4 February 2008. Details of the transaction are set out in the Company's announcement on 31 December 2007 and its circular dated 18 January 2008.

(e) The compensation payable to key management personnel during the year have been disclosed in note 14 to the financial statements.

41. FINANCIAL INSTRUMENTS

41.1 Financial risk management objectives and policies

The Group is exposed a variety of financial risks such as credit risk, liquidity risk, currency risk, and interest rate risk, in the normal course of business. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks.

Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to market risk is kept to minimum, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Group is exposed are described below. A summary of the Group's financial assets and liabilities by category is set out in note 41.2.

(a) Interest rate risk

The Group borrows the loans where interest is charged at the fixed interest rates. The Group did not have exposure to the floating interest rate where there are unexpected adverse interest rate movements. The interest rates and repayment terms of bank loans, other loans, amounts due to related companies and amounts due to minority equity holders of subsidiaries are disclosed in notes 27, 28, 29 and 30 respectively.

41. FINANCIAL INSTRUMENTS *(cont'd)*

41.1 Financial risk management objectives and policies *(cont'd)*

(a) Interest rate risk (cont'd)

Interest rate sensitivity analysis

The sensitivity analysis is determined by assuming that the change in interest rates had occurred and had been applied to variable-rate financial instruments at the balance sheet date. The 25 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the year ended 31 December 2006.

As at 31 December 2007, the Group was exposed to changes in interest rates through its cash and cash equivalents. It is estimated that a general increase of 25 basis points in interest rates, with all other variables held constant, will increase the Group's profit after income tax and decrease the accumulated loss by approximately HK$1,151,000 (2006: HK$26,000). There is no impact on other components of consolidated equity in response to the general increase in interest rates. A decrease of 25 basis points in interest rate will have had the equal but opposite effect.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy and the exposures to credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 24.

The Group has deposited its cash with various banks. The credit risk on cash and bank balances is limited because most of the Group's bank deposits are deposited with major banks and financial institutions located in Hong Kong and the PRC.

(c) Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group companies hold majority of their financial assets/liabilities in their own functional currencies.

(d) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their value.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

41. FINANCIAL INSTRUMENTS *(cont'd)*

41.1 Financial risk management objectives and policies *(cont'd)*

(e) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group can be required to pay:

Group

	31 December 2007				
	Carrying amount HK$'000	**Total contractual undiscounted cash flows HK$'000**	**Within 1 year or on demand HK$'000**	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**
Trade payables	**2,294**	**2,294**	**2,294**	**–**	**–**
Other payables	**125,997**	**125,997**	**125,997**	**–**	**–**
Bank loans	**54,265**	**56,582**	**56,582**	**–**	**–**
Other loans	**130,323**	**138,040**	**138,040**	**–**	**–**
Amounts due to related companies	**25,907**	**26,895**	**26,895**	**–**	**–**
Amounts due to minority equity holders of subsidiaries	**119,358**	**122,538**	**87,108**	**35,430**	**–**
Convertible notes	**34,014**	**57,802**	**–**	**–**	**57,802**
	492,158	**530,148**	**436,916**	**35,430**	**57,802**

	31 December 2006				
	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000
Other payables	29,812	29,812	29,812	–	–
Bank loans	49,963	50,569	50,569	–	–
Other loans	231,877	242,488	91,295	151,193	–
Amounts due to related companies	25,820	27,499	–	27,499	–
Amounts due to minority equity holders of subsidiaries	70,052	73,989	1,998	71,991	–
Amount due to ultimate holding company	10,000	10,000	10,000	–	–
	417,524	434,357	183,674	250,683	–

41. FINANCIAL INSTRUMENTS *(cont'd)*

41.1 Financial risk management objectives and policies *(cont'd)*

(e) Liquidity risk (cont'd)

Company

	31 December 2007		
	Carrying amount HK$'000	**Total contractual undiscounted cash flows HK$'000**	**Within 1 year or on demand HK$'000**
Other payables	**5,765**	**5,765**	**5,765**

	31 December 2006		
	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000
Other payables	876	876	876
Amount due to ultimate holding comapny	10,000	10,000	10,000
	10,876	10,876	10,876

41.2 Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at the balance sheet dates are categorised as follows. See notes 3(m) and 3(t) for explanations about how the categorisation of financial instruments affects their subsequent measurements.

(i) Financial assets

	Group		**Company**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Non-current assets				
Loans to subsidiaries	**–**	–	**126,598**	–
Current assets				
Loans and receivables:				
– Trade receivables	**7,232**	3	**–**	3
– Amounts due from subsidiaries	**–**	–	**661,059**	82,006
– Cash and cash equivalents	**460,538**	10,573	**7,542**	3,299
	467,770	10,576	**668,601**	85,308

41. FINANCIAL INSTRUMENTS *(cont'd)*

41.2 Summary of financial assets and liabilities by category *(cont'd)*

(ii) Financial liabilities

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Current liabilities				
Financial liabilities at amortised cost:				
– Trade payables	**2,294**	–	**–**	–
– Other payables	**125,997**	29,812	**5,765**	876
– Bank loans	**54,265**	49,963	**–**	–
– Other loans	**130,323**	89,882	**–**	–
– Amounts due to related companies	**25,907**	–	**–**	–
– Amounts due to minority equity holders of subsidiaries	**85,589**	1,998	**–**	–
– Amount due to ultimate holding company	**–**	10,000	**–**	10,000
Financial liability at fair value through profit or loss				
– Derivative liabilities of convertible notes	**10,916**	–	**–**	–
	435,291	181,655	**5,765**	10,876
Non-current liabilities				
Financial liabilities at amortised cost:				
– Other loans	**–**	141,995	**–**	–
– Amounts due to related companies	**–**	25,820	**–**	–
– Amounts due to minority equity holders of subsidiaries	**33,769**	68,054	**–**	–
– Convertible notes	**34,014**	–	**–**	–
	67,783	235,869	**–**	–
	503,074	417,524	**5,765**	10,876

42. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide adequate returns for shareholders in the long term and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may issue new shares to reduce debts. During the year, the Company issued new shares of 230,000,000 shares at a cash consideration of HK$2.0 per share with net proceeds of HK$443,530,000 to strengthen the equity base of the Company. As described in note 32, the Group issued the Notes with the principal amount of HK$300,000,000 during the year, of which HK$260,000,000 of the Notes has been converted into 111,588,000 shares of the Company at HK$2.33 per share to further strengthen the equity base of the Company.

Management regards total equity, convertible notes, unsecured bank loans and other borrowings presented on the face of the consolidated balance sheet as capital, for capital management purpose. The amount of capital as at 31 December 2007 was HK$1,166,793,000 (2006: HK$487,292,000).

43. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date in January 2008, the remaining principal amount of HK$40,000,000 of the Notes has been converted into 17,167,381 fully paid ordinary shares of the Company with a par value of HK$0.10 at the initial conversion price of HK$2.33 per share, resulting in an increase in the issued share capital of the Company after the balance sheet date accordingly.

(b) Subsequent to the balance sheet date in January 2008, Jinshan and a minority equity holder of Luenshan entered into the supplemental articles of association to increase the registered capital of Luenshan from RMB30,000,00 to RMB120,000,000. The registered capital of Luenshan will be increased by RMB90,000,000 million, of which RMB58,500,000 and RMB31,500,000 shall be contributed by Jinshan and the minority equity holder of Luenshan in accordance with their shareholdings respectively.

(c) The Company entered into the Memorandum of Understanding (the "MOU") with Fortune Dragon Energy Limited ("Fortune Dragon") relating to a possible very substantial acquisition (the "Proposed Acquisition") and connected transaction on 31 January 2008. Pursuant to the MOU, the Company and the Fortune Dragon shall use their best endeavours to negotiate and finalise a definitive formal agreement for the Proposed Acquisition by no later than 29 February 2008 (or such later date as the parties may agree). As disclosed in the announcement of the Company dated 3 March 2008, on 3 March 2008, the parties to the MOU mutually agreed to extend the time for the negotiation and finalization of the Exclusivity Undertaking under the MOU. On 31 March 2008, the parties to the MOU mutually agreed to further extend (i) the time for the negotiation and finalization of the definitive agreement for the Proposed Acquisition and (ii) the expiry date of the Exclusivity Undertaking under the MOU to 30 April 2008. Details of the MOU are set out in the Company's announcement dated 31 January 2008, 3 March 2008 and 31 March 2008 respectively.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years as extracted from the respective published audited financial statements is set out below. Certain comparative amounts have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 January 2005. This summary does not form part of the audited financial statements.

	2007	2006	2005	(Restated) 2004	(Restated) 2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**15,056**	10,535	10,232	7,560	1,470
Loss attributable to equity holders of the Company	**(77,948)**	(30,988)	(14,020)	(14,741)	(5,629)
Assets and liabilities					
Total assets	**1,295,084**	517,104	383,799	210,021	103,364
Total liabilities	**(503,074)**	(417,524)	(256,338)	(82,021)	(4,461)
Net assets	**792,010**	99,580	127,461	128,000	98,903
Minority interests	**(58,279)**	(42,034)	(54,276)	(42,080)	–
Equity attributable to equity holders of the Company	**733,731**	57,546	73,185	85,920	98,903