



Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578

Interim Report 2009

The board of directors (the "Board") of Dynamic Energy Holdings Limited (the "Company") is pleased to present the unaudited interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

During the six months ended 30 June 2009, the results of the Company were being affected by several factors including the unfavourable macro-economic condition since the arisen of global financial tsunami, the suspension of coal mines in Henan Province, the cooling down of coal demand hence the dropping of the coal price and the significant changes in the fair value of the convertible bonds ("CBs") issued by the Company.

With the significant impact on the changes in fair value on the CBs resulting from the large difference in market price of the Company's share between the dates as at 31 December 2008 and as at 30 June 2009, there was a significant non-cash loss to the Company occurred. Excluding the loss from the changes in fair value on the CBs and the effective interest expense recognized on the CBs and other finance cost, the operating profit of the Company was approximately HK\$157.0 million for the six months ended 30 June 2009 (Six months ended 30 June 2008: approximately HK\$227.4 million), 31.0% lower than the corresponding period of 2008. The reduction of operating profit was mainly due to the reduction in revenue resulting from the suspension of some Company's coal mines during the period.

Nevertheless, during the six months ended 30 June 2009, the Group has put the best efforts to overcome against the challenges and has focused in the following areas to lower the overall unfavorable impact on the Company:

(1) *Proactively to strive for early resumption of operation of coal mines*

Due to the policy requirements imposed by the local government authority, all the coal mines in Henan Province, including all of the Company's five coal mines were suspended for safety inspection in last quarter of 2008. With the high safety standards having implemented in the Company's coal mines, one of the Company's major coal mines has been allowed to resume production in December 2008 and the other coal mines have also been resumed in operations during the six months ended 30 June 2009. The standard of safety production has been reached to the highest level ever in the Company's historical record. No death record or substantial accidental record has been noted during the six months ended 30 June 2009. The Company has developed expert management teams to closely monitor the safety standards of the coal mines and to reinforce the safety regulations to workers continuously. Xiaohe Coal Mine No. 1 and Xingyun Coal Mine have been recognized by the local government authority as the model coal mines for safety standards within the province. Xiaohe Coal Mine No. 1 is also recognized by the local government authority as one of the best coal mines within Zhengzhou City.

With the best efforts contributed by the management to reinforce the safety standards continuously and to compile with the relevant stringent requirements, all of the Company's coal mines have been approved for resumption in operations earlier than many other local coal mines within the province.

(2) *Boosting the sales by exploring with new customers*

Although the macro-economic environment is not favorable during the six months ended 30 June 2009, the Company has also successfully explored several new customers during the period in order to secure the turnover of the Company. With the Company's ability to provide the coal with stable in quality, price and quantity supply, and the development of trust worthiness with customers which is the most important factor, the Company has secured the turnover in a comparatively stable level in the unstable economic environment.

Financial Review

Revenue

The Group's turnover for the six months ended 30 June 2009 amounted to approximately HK\$318.5 million (equivalent to approximately RMB280.8 million), representing a 29.0% decrease from approximately HK\$448.4 million (equivalent to approximately RMB403.5 million) for the six months ended 30 June 2008. Decrease in turnover was mainly due to reduction in production of coal resulting from the suspension of Company's coal mines during the period. During the six months ended 30 June 2009, the total sales volume of coal was approximately 0.73 million tons (Six months ended 30 June 2008: approximately 1.08 million tons) representing a 32.4% decrease from the same corresponding period of 2008. Although sales volume was reduced due to the suspension of Company's coal mines, the average selling price of coal in first half of year 2009 was approximately RMB384 per ton which was still slightly higher than the average selling price of RMB373 during the same corresponding period of 2008.

Gross Profit

As a result of achieving a favourable average selling price and continue enhancement of cost control, although the total revenue of the Group was reduced, the Group's gross profit margin of coal mine business still has slight improvement from approximately 63.1% for the six months ended 30 June 2008 to approximately 66.9% for the six months ended 30 June 2009. The gross profit has been decreased by 24.7% to approximately HK\$213.0 million for the six months ended 30 June 2009 as compared with the same period of 2008. The reduction in gross profit was mainly due to the reduction in revenue as explained above.

Net Loss

The net loss attributable to the owners of the Company for the first half year of 2009 was approximately HK\$234.6 million (Six months ended 30 June 2008: the net profit attributable to the owners of the Company was approximately HK\$208.5 million). The net loss attributable to the owners of the Company was mainly due to (i) the reduction of operating profit resulting from the suspension of Company's coal mines hence decrease in total revenue and (ii) the significant non-cash loss from the changes in fair value of compound derivative component of CBs during the period.

PROSPECT

With the global economic downturn since the second half of 2008, the demand of natural resources in mainland China including thermal coal was decreasing from 2008 to a stable condition in 2009. The management of the Company expects that there will not be dramatic changes in 2009 and that the demand of coal will be reached to a stable level. Nevertheless, due to the Company's stable coal quality and the good relationship with major customers, the selling price of coal for the Company in the second half of 2009 is not expected to have significant changes and will be maintained steadily. With continuous effective control on the cost, the management of the Company expects that the Company can still achieve and maintain a high gross profit margin for the production and sale of coal.

Since all of the Company's coal mines have been resumed in operations by first half of 2009, the operation status of the Company as at 30 June 2009 has been back to the stage as almost similar as the status just before the suspension. With exploring new customers and boosting production capacity to meet customers' demand, the Board expects that the total production volume for the whole year of 2009 will not have a significant difference comparing with 2008 if there is no further suspension of Company's coal mines in second half year of 2009.

The Company has announced in July 2009 to propose to form a joint venture (the "Joint Venture") with a state owned enterprise in Henan Province, focusing in acquiring and consolidating other coal mines within Henan Province. The proposed formation of the Joint Venture is in line with business strategy of the Group. It enables the Group to capitalise on its existing business structure to expand its production volume and coal reserves. The target of the Joint Venture is to reach the annual production capacity of raw coal to 10 million tons by the end of 2010 and to 20 million tons by the end of 2011. If the formation of Joint Venture can be materialized in the second half of 2009, the coal reserves of the Group will be further enhanced.

Other than the Joint Venture, the Company is also looking for proper acquisition opportunities in Henan Province and also in other areas within mainland China, including Shanxi Province and Inner Mongolia. This is the strategy of the Company to enlarge its coal reserves and output capacity.

On 8 September 2009, a fatal explosion occurred in a coal mine in Henan Province. According to the suspension order given by the local government authority, coal mines with licensed annual production capacity lower than 300,000 tons were required to suspend in operations. Some of the coal mines within Henan Province, including four coal mines of the Group, namely Xiangyang Coal Mine, Xingyun Coal Mine, Xiaohe Coal Mine No.2 and Xiaohe Coal Mine No.3, were required to suspend operations immediately for safety inspection. At the date of this report, the Board cannot ascertain the length of the suspension period and is unable to estimate the respective financial effects.

Upon the suspension of the Company's four coal mines as stated above, only one of the Company's coal mines, namely Xiaohe Coal Mine No. 1, which the licensed annual capacity is 360,000 tons remains unaffected and has no need to suspend operation as at the date of this interim report, which contributed approximately 26% of total licensed annual capacity of the Company's coal mines.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2009, the net asset value of the Group was approximately HK\$570.8 million (As at 31 December 2008: approximately HK\$765.1 million) and the total cash and bank balance was approximately HK\$165.2 million (As at 31 December 2008: approximately HK\$165.3 million). As at 30 June 2009, the Group had net current liabilities of HK\$196.1 million (As at 31 December 2008: HK\$170.0 million) and the current ratio was 0.7 times (As at 31 December 2008: 0.7 times).

As at 30 June 2009, bank loans of approximately HK\$45.3 million (As at 31 December 2008: approximately HK\$45.4 million) were denominated in RMB and were secured by certain accounts receivable, bear interest at fixed rate ranging from 4.37% to 5.44% per annum (As at 31 December 2008: a fixed rate of 7.30% per annum); bank loans of approximately HK\$39.7 million (As at 31 December 2008: approximately HK\$22.7 million) were denominated in RMB and were unsecured, bear interest at fixed rate ranging from 4.86% to 12.14% per annum (As at 31 December 2008: a fixed rate of 12.14% per annum) and of approximately HK\$45.3 million (As at 31 December 2008: HK\$45.4 million) was guaranteed by an independent third party.

The Group's bills payable amounted to approximately HK\$164.4 million (As at 31 December 2008: HK\$153.3 million) are secured by the pledge of the Group's time deposits of approximately HK\$113.2 million (As at 31 December 2008: HK\$85.2 million).

As at 30 June 2009, the Company had two (As at 31 December 2008: three) outstanding CBs. The liability component and the fair value of compound derivative component of all the outstanding CBs stated in the balance sheet amounted to approximately HK\$311.8 million and HK\$316.0 million respectively (As at 31 December 2008: approximately HK\$292.3 million and HK\$23.2 million respectively). One of the CBs was secured by the Company's entire interest in two subsidiaries, namely Clear Interest Limited and Zhong Yue Energy Development (Shenzhen) Company Limited.

As at 30 June 2009, one of the CBs (i.e. "CB3") was classified as current liabilities. The holders of CB3, the 2% coupon convertible bonds with initial principal amount of US\$25 million (equivalent to approximately HK\$194.5 million) with an adjusted conversion price of HK\$0.88 per share with maturity date on 10 December 2010, have the right at such holders' options (the "Put Option"), to require the Company to redeem all or some only of the CB3 on 10 December 2009. Respective liability and compound derivative component amounted to approximately HK\$182.3 million and HK\$97.1 million respectively were classified as current liabilities. Subsequent to 30 June 2009 and up to the date of publishing this interim financial report, principal of CB3 amounted to US\$9 million (equivalent to approximately HK\$70.0 million) had been converted into ordinary shares of the Company. Therefore, the outstanding principal amount of CB3 as at the date of this interim financial report was US\$16 million (equivalent to approximately HK\$124.5 million).

As at 30 June 2009, the Group had net current liabilities of approximately HK\$196.1 million. Upon the conversion of US\$9 million (equivalent to approximately HK\$70.0 million) of CB3 subsequent to 30 June 2009 and up to the date of this interim financial report, and by excluding the non-cash compound derivative component of CB3 stated in the current liabilities amounted to HK\$97.1 million, the net current liabilities of the Group was approximately HK\$33.4 million.

The Board is considering various alternatives to strengthen the capital base and liquidity of the Company and the Group, including through fund raising and debt re-financing/debt re-arrangement exercises.

The Group's gearing ratio, as a ratio of non-current liabilities to total equity, was 61.03% as at 30 June 2009 (As at 31 December 2008: 16.25%).

EXCHANGE RISK EXPOSURE

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

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009.

EMPLOYEES AND REMUNEARTION POLICIES

As at 30 June 2009, the Group has a total of approximately 4,500 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical insurances and a Mandatory Provident Fund. A share option scheme was adopted by the Group on 20 October 2004 ("the Scheme") to enable the directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group. During the period, except the share options allotted to directors and employees according to the adjustment terms of the Scheme upon approval of the bonus issue on 30 April 2009 (the "Bonus Issue"), no share option has been granted to directors or employees. Details of the share options are set out in note 17 to the interim financial report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Corporate Governance Practice (the "Code") set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company. The members of the audit committee have reviewed the interim financial report of the Group for the six months ended 30 June 2009 and are of the opinion that such report had complied the applicable accounting standards, the Listing Rules and the legal requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Board is in the opinion that the Company had complied with code provisions in the Code during the six months ended 30 June 2009, save for the following exception:

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

DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all directors have fully complied with the required standards set out in the Model Code throughout the six months ended 30 June 2009.

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

As at 30 June 2009, the interests and short positions of each director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Director	Nature of interest	Number of shares	Number of underlying shares	Percentage of the Company's issued share capital
Mr. Bao Hongkai ("Mr. Bao")	Interests in controlled corporation	307,157,142 (Note 1)	371,461,299 (Note 1)	50.93%
	Personal interest	6,750,000	4,770,000 (Note 2)	0.86%
Mr. Wu Jiahong ("Mr. Wu")	Personal interest		11,520,000 (Note 2)	0.86%
Mr. Xu Lidi ("Mr. Xu")	Personal interest	6,750,000	4,770,000 (Note 2)	0.86%

Notes:

- (1) Such Shares were held through Dragon Rich Resources Limited ("Dragon Rich"), a company incorporated in the British Virgin Islands which is beneficially owned as to 40% by Mr. Bao, as to 20% by Mr. Wu, as to 20% by Mr. Xu and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao, Mr. Wu and Mr. Xu are the executive directors of the Company during the period. Mr. Bao, Mr. Wu and Mr. Xu are the directors of Dragon Rich. As at 30 June 2009, Dragon Rich also holds one of the CBs with the initial principal face value of HK\$230,000,000 (i.e. "CB2"). As at 30 June 2009, the principal value of CB2 held by Dragon Rich is HK\$227,000,000. Upon full conversion of CB2 thereof at the adjusted conversion price of HK\$0.61, a total of 371,461,299 shares will be issued to Dragon Rich.
- (2) Each of Mr. Bao and Mr. Xu is interested as a grantee of share options to subscribe for 4,770,000 shares of the Company and Mr. Wu is interested as a grantee of share options to subscribe for 11,520,000 shares of the Company under the share option scheme as disclosed in note 17 to the interim financial report.

(b) Long positions in the shares of associated corporations of the Company

Name of Director	Name of subsidiary	Number of shares held, capacity and nature of interest			
		Shares	Number of shares held/ Amount of capital paid	Capacity and nature of interest	Percentage of the equity interest
Mr. Bao	河南金豐煤業集團有限公司 (Henan Jinfeng Coal Industrial Group Company Limited) ("Jinfeng")	N/A	RMB11,800,000	Through controlled corporation	10%

Save as disclosed above, none of the directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange as at 30 June 2009.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Company's directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to the directors or chief executive of the Company, as at 30 June 2009, the persons, other than the directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

(a) Long positions in the shares of the Company

Name of Shareholders	Capacity	Number of shares	Approximate percentage of shareholding
Dragon Rich Resources Limited ("Dragon Rich") ⁽¹⁾	Beneficial owner	307,157,142	23.05%
Hopeview Consultants Limited ⁽²⁾	Beneficial owner	135,000,000	10.13%
Liu Changsong ⁽²⁾	Interests in controlled corporation	135,000,000	10.13%
Sun Zhi Ming ⁽³⁾	Beneficial owner	96,318,540	7.23%
Cheng Huarong ⁽³⁾	Beneficial owner	83,160,000	6.24%
Zhao Shufan ⁽³⁾	Beneficial owner	79,196,400	5.94%

(b) Long positions in underlying shares of the Company – Derivatives

Name of Shareholders	Capacity	Number of underlying shares	Approximate percentage of shareholding
Dragon Rich ⁽¹⁾	Beneficial owner	371,461,299	27.88%
CQS Convertible and Quantitative Strategies Master Fund Limited ⁽⁴⁾	Beneficial owner	132,613,636	9.95%
ABN AMRO Holding N.V. ⁽⁵⁾	Beneficial owner	88,409,090	6.63%
RFS Holdings B.V. ⁽⁵⁾	Interests in controlled corporation	88,409,090	6.63%
The Royal Bank of Scotland Group plc ⁽⁵⁾	Interests in controlled corporation	88,409,090	6.63%

Notes:

- (1) Dragon Rich is beneficially owned as to 40% by Mr. Bao, Mr. Bao was deemed to be interested in the underlying shares held by Dragon Rich.
- (2) Hopeview Consultants Limited is beneficially and wholly owned by Mr. Liu Changsong, He is independent and not related to the Board or management of the Company.
- (3) They are individual shareholders and not related to the Board or management of the Company.
- (4) According to the corporate substantial shareholder notice (Form 2) filed by CQS Convertible and Quantitative Strategies Master Fund Limited with Stock Exchange, the long position 132,613,636 shares are being derivative interests derived from convertible bonds.
- (5) According to the corporate substantial shareholder notice (Form 2) filed by ABN AMRO Holding N.V. ("ABN") with Stock Exchange, the long position 88,409,090 shares are being derivative interests derived from convertible bonds. ABN is beneficially owned by RFS Holdings B.V. ("RFS"). The Royal Bank of Scotland Group plc. holds 38.28% of RFS.

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

CONNECTED TRANSACTIONS

Details of the connected transactions are included in note 19 to the interim financial report.

REVIEW OF UNAUDITED INTERIM RESULTS BY AUDITORS

The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2009 have been reviewed by Grant Thornton, the Group's auditors. The auditors' independent review report was set out on page 12 of this interim financial report.

Wu Jiahong
Executive Director

Hong Kong, 14 September 2009

INDEPENDENT REVIEW REPORT



Member of Grant Thornton International Ltd

TO THE BOARD OF DIRECTORS OF DYNAMIC ENERGY HOLDINGS LIMITED 合動能源控股有限公司
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 14 to 35, which comprises the consolidated statement of financial position of Dynamic Energy Holdings Limited and its subsidiaries (collectively referred to as the “Group”) as of 30 June 2009 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34.

Emphasis of matter – material continued uncertainty regarding the going concern assumption

Without qualifying our conclusion, we draw your attention to note 1 to the interim financial report concerning the adoption of the going concern basis on which the interim financial report has been prepared. As at 30 June 2009 and 31 December 2008, the Group had net current liabilities of approximately HK\$196,130,000 and HK\$170,025,000 respectively. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Grant Thornton

Certified Public Accountants
6th Floor, Nexus Building
41 Connaught Road Central
Hong Kong

14 September 2009

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	Unaudited Six months ended 30 June	
		2009 HK\$'000	2008 HK\$'000
Revenue	4	318,549	448,397
Cost of sales		(105,580)	(165,502)
Gross profit		212,969	282,895
Other income	4	2,682	13,530
Selling expenses		(4,761)	(4,970)
Administrative expenses		(50,039)	(63,156)
Other operating expenses		(3,841)	(941)
Operating profit		157,010	227,358
Change in fair value of compound derivative financial instruments	15	(292,721)	99,004
Finance costs	5	(43,612)	(34,236)
(Loss)/Profit before income tax	6	(179,323)	292,126
Income tax expense	7	(43,458)	(65,344)
(Loss)/Profit for the period		(222,781)	226,782
(Loss)/Profit for the period attributable to:			
Owners of the Company		(234,615)	208,482
Minority interest		11,834	18,300
		(222,781)	226,782
(Loss)/Earnings per share for (loss)/profit attributable to the owners of the Company during the period (2008: As restated)	9		
– Basic (HK cents)		(17.959)	16.559
– Diluted (HK cents)		N/A	7.237

The notes on pages 21 to 35 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
(Loss)/Profit for the period	(222,781)	226,782
Other comprehensive (loss)/income for the period		
Exchange (loss)/gain on translation of financial statements of foreign operations	(1,393)	35,923
Total comprehensive (loss)/income for the period	(224,174)	262,705
Total comprehensive (loss)/income attributable to:		
Owners of the Company	(235,876)	241,947
Minority interest	11,702	20,758
	(224,174)	262,705

The notes on pages 21 to 35 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Notes	Unaudited 30 June 2009 HK\$'000	Audited 31 December 2008 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	240,552	205,737
Prepaid lease payments		1,110	1,255
Goodwill		239,955	239,955
Mining rights		633,613	640,941
Other intangible assets		64	118
		1,115,294	1,088,006
Current assets			
Inventories	11	20,422	25,104
Accounts receivable	12	140,353	60,859
Prepayments, deposits and other receivables		184,999	160,883
Pledged bank deposits		113,184	85,170
Cash and cash equivalents		51,975	80,131
		510,933	412,147
Current liabilities			
Accounts and bills payables	13	180,432	168,485
Other payables and accruals		79,250	38,605
Accrued reclamation obligations		68,401	69,901
Provision for tax		14,502	45,809
Bank loans	14	85,035	68,130
Compound derivative financial instruments	15	97,127	4,788
Convertible bonds	15	182,316	186,454
		707,063	582,172
Net current liabilities		(196,130)	(170,025)
Total assets less current liabilities		919,164	917,981

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2009

	<i>Notes</i>	Unaudited 30 June 2009 <i>HK\$'000</i>	Audited 31 December 2008 <i>HK\$'000</i>
Non-current liabilities			
Other payables		–	28,561
Compound derivative financial instruments	<i>15</i>	218,826	18,444
Convertible bonds	<i>15</i>	129,522	105,884
		348,348	152,889
Net assets		570,816	765,092
EQUITY			
Share capital	<i>16</i>	133,252	66,959
Reserves		359,182	631,453
Equity attributable to Company's owners		492,434	698,412
Minority interest		78,382	66,680
Total equity		570,816	765,092

The notes on pages 21 to 35 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2009

	Attributable to owners of the Company											Minority interest	Total equity
	Share capital	Share premium	Equity component of convertible bonds	Share option reserve	Capital redemption reserve	Other reserve	Contributed surplus	Exchange fluctuation reserve	Retained profits	Statutory reserve fund	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	66,686	27,629	4,582	1,576	50	25,779	67,421	16,242	135,500	18,023	363,488	34,726	398,214
Transfer	-	-	-	-	-	15,396	-	-	(15,396)	-	-	-	-
Issue of shares on conversion of convertible bonds	273	1,651	-	-	-	-	-	-	-	-	1,924	-	1,924
Employee share based compensation	-	-	-	19,056	-	-	-	-	-	-	19,056	-	19,056
Transactions with owners	273	1,651	-	19,056	-	15,396	-	-	(15,396)	-	20,980	-	20,980
Profit for the period	-	-	-	-	-	-	-	-	208,482	-	208,482	18,300	226,782
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
- Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-	-	-	33,465	-	-	33,465	2,458	35,923
Total comprehensive income for the period	-	-	-	-	-	-	-	33,465	208,482	-	241,947	20,758	262,705
At 30 June 2008	66,959	29,280	4,582	20,632	50	41,175	67,421	49,707	328,586	18,023	626,415	55,484	681,899

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(CONTINUED)

For the six months ended 30 June 2009

	Attributable to owners of the Company												Minority interest	Total equity
	Equity component													
	Share capital	Share premium	convertible bonds	Share option reserve	Capital redemption reserve	Other reserve	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Retained Profits	Statutory reserve fund	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	66,959	29,280	4,582	20,632	50	40,516	67,421	46,654	27,442	360,774	34,102	698,412	66,680	765,092
Transfer	-	-	-	-	-	8,291	-	-	-	(8,291)	-	-	-	-
Share options forfeited	-	-	-	(71)	-	-	-	-	-	71	-	-	-	-
Bonus issue of shares on conversion of convertible bonds	59,139	-	-	-	-	-	(59,139)	-	-	-	-	-	-	-
Exercise of share options	5,714	17,771	(4,582)	-	-	-	-	-	-	-	-	18,903	-	18,903
	1,440	19,775	-	(10,220)	-	-	-	-	-	-	-	10,995	-	10,995
Transactions with owners	66,293	37,546	(4,582)	(10,291)	-	8,291	(59,139)	-	-	(8,220)	-	29,898	-	29,898
Loss for the period	-	-	-	-	-	-	-	-	-	(234,615)	-	(234,615)	11,834	(222,781)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-	-	-	(1,261)	-	-	-	(1,261)	(132)	(1,393)
Total comprehensive loss for the period	-	-	-	-	-	-	-	(1,261)	-	(234,615)	-	(235,876)	11,702	(224,174)
At 30 June 2009	133,252	66,826	-	10,341	50	48,807	8,282	45,393	27,442	117,939	34,102	492,434	78,382	570,816

The notes on pages 21 to 35 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Net cash from operating activities	17,288	171,522
Net cash used in investing activities	(73,261)	(142,035)
Net cash from/(used in) financing activities	28,215	(53,963)
Net decrease in cash and cash equivalents	(27,758)	(24,476)
Cash and cash equivalents at 1 January	80,131	115,180
Effect of foreign exchange rate changes on cash and cash equivalents	(398)	2,450
Cash and cash equivalents at 30 June	51,975	93,154

The notes on pages 21 to 35 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2008, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 2 to this interim financial report.

This interim financial report is unaudited, but has been reviewed by Grant Thornton in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

This interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2008.

The holders of one of the convertible bonds, the 2% coupon convertible bonds with initial principal amount of US\$25.0 million (equivalent to approximately HK\$194.5 million) with an adjusted conversion price of HK\$0.88 (initial conversion price of HK\$1.80) per share with maturity date on 10 December 2010 (“CB3”), have the right at such holders’ options to require the Company to redeem all or some only of the outstanding CB3 on 10 December 2009. In preparing the Group’s interim financial report for the six months ended 30 June 2009, the liability component and compound derivative component of CB3 amounted to approximately HK\$182.3 million (31 December 2008: approximately HK\$167.8 million) and HK\$97.1 million (31 December 2008: HK\$4.8 million) respectively were therefore classified as current liabilities, as in the Group’s annual financial statements for the year ended 31 December 2008.

As at 30 June 2009, the Group had net current liabilities of approximately HK\$196.1 million (31 December 2008: approximately HK\$170.0 million).

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

1. BASIS OF PREPARATION (CONTINUED)

In presenting the interim financial report for the six months ended 30 June 2009, the directors have given considerations to the future financial positions of the Group in light of the financial conditions as described in the preceding paragraph. The directors are taking active steps to improve the financial positions of the Group as described below.

The interim financial report has been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 30 June 2009 and subsequently thereto up to the date of approval of this interim financial report. In order to improve the Group's financial positions, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors have adopted several measures together with other measures in progress at the date of approval of this interim financial report which include, but not limited to, the following:

- (a) The Group has been taking stringent cost controls in general and administrative expenses;
- (b) The Group has been implementing various strategies to enhance the Group's turnover, including but not limited to:
 - (i) continue to stabilise coal production to fulfill the long-term supply to the power companies in the People's Republic of China (the "PRC"); and
 - (ii) explore more opportunities in the coal business;
- (c) The directors will consider various alternatives to strengthen the capital base and liquidity of the Group, including through fund raising and debt re-financing/debt re-arrangement exercises.

On the basis that the Group is able to improve and generate adequate cash flows from its continuing operations and through the successful implementation of the measures described above in the foreseeable future, the directors are satisfied that the Group will be able to meet in full their financial obligations as they fall due for the twelve months from 30 June 2009. Accordingly, the directors are of the opinion that it is appropriate to prepare the interim financial report for the six months ended 30 June 2009 on a going concern basis.

Should the above measures be failed or insufficient, or should the going concern basis be inappropriate, adjustments would have to be made to the interim financial report to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these potential adjustments has not yet been reflected in the interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current period, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendment)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Reassessment of embedded derivatives
HKFRSs (Amendments)	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of these new and revised HKFRSs did not change the Group's accounting policies as followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has changed the identified and reportable operating segment for the Group. Reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision makers. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

3. SEGMENT INFORMATION

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group's chief operating decision makers in order to allocate resources and assess performance of the segment. For the periods presented, chief operating decision makers have determined that the Group has no operating segment as the Group is only engaged in the business of production and sale of coal which is the basis to allocate resources and assess performance.

4. REVENUE AND OTHER INCOME

Turnover represents the revenue arising from the Group's principal activities which are the sale of coal.

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

	Unaudited	
	Six months ended 30 June 2009	2008
	HK\$'000	HK\$'000
Revenue/Turnover		
Sale of coal	318,549	448,397
Other income		
Interest income	1,744	409
Bad debts recovery	–	8,733
Sale of consumable tools	462	–
Others	476	4,388
	2,682	13,530

5. FINANCE COSTS

	Unaudited	
	Six months ended 30 June 2009	2008
	HK\$'000	HK\$'000
Interest charge on bank loans		
– wholly repayable within five years	3,192	3,130
Effective interest expense on convertible bonds		
– repayable within five years	40,420	31,106
Interest expenses on financial liabilities stated at amortised cost	43,612	34,236

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

6. (LOSS)/PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 30 June 2009	2008
	HK\$'000	HK\$'000
Cost of inventories sold	98,471	157,717
Depreciation	9,934	6,710
Operating lease charges on land and buildings	356	306
Amortisation of prepaid lease payments	142	231
Amortisation of mining rights	6,316	11,588
Amortisation of intangible assets	54	67
Employee benefit expenses (including directors' remuneration and retirement benefit scheme contributions)	50,278	65,694
Loss on disposals of property, plant and equipment	–	505

7. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June 2009	2008
	HK\$'000	HK\$'000
Current tax		
– PRC income tax	43,458	65,344

Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2008: Nil).

Corporate income tax arising in the PRC is calculated at the statutory income tax rate of 25% (Six months ended 30 June 2008: 25%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations in the PRC.

8. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2009 (Six months ended 30 June 2008: Nil).

9. (LOSS)/EARNINGS PER SHARE

During the six months ended 30 June 2009, the Company made a bonus issue of the ordinary shares to its shareholders on the basis of four bonus shares for every five existing shares of the Company recorded on the member register of the Company on 30 April 2009 (the "Bonus Issue"). The comparative figures of basic and diluted (loss)/earnings per share have been restated for the effect of the Bonus Issue.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

9. (LOSS)/EARNINGS PER SHARE (CONTINUED)

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

	Unaudited Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
(Loss)/Profit		
(Loss)/Profit for the period attributable to the owners of the Company for the purpose of basic (loss)/earnings per share	(234,615)	208,482
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	40,420	31,106
Change in fair value of compound derivative financial instruments	292,721	(99,004)
Profit for the purpose of diluted earnings per share attributable to the owners of the Company	98,526	140,584

	Unaudited Six months ended 30 June	
	2009	2008
	'000	'000
		(Restated)

Number of shares

Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,306,388	1,259,032
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	–	14,845
Convertible bonds	–	668,812
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	1,306,388	1,942,689

Loss per share attributable to the owners of the Company for the six months ended 30 June 2009 is based on the loss attributable to the owners of the Company of approximately HK\$234.6 million (Six months ended 30 June 2008: profit of approximately HK\$208.5 million) and the weighted average of 1,306,388,000 ordinary shares (Six months ended 30 June 2008: 1,259,032,000, as restated) outstanding during the six months ended 30 June 2009.

No diluted loss per share attributable to the owners of the Company is presented for the six months ended 30 June 2009 as the potential ordinary shares have anti-dilutive impact.

Diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2008 is based on the profit attributable to the owners of the Company of approximately HK\$140.6 million and the weighted average of 1,942,689,000 (as restated) ordinary shares outstanding during the six months ended 30 June 2008.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009,

- (a) the Group incurred capital expenditure of approximately HK\$24.5 million (Six months ended 30 June 2008: approximately HK\$14.0 million) in buildings, approximately HK\$1.3 million (Six months ended 30 June 2008: approximately HK\$3.4 million) in plant and machinery, approximately HK\$9.5 million (Six months ended 30 June 2008: approximately HK\$8.3 million) in mining related machinery and equipment, approximately HK\$1.3 million (Six months ended 30 June 2008: approximately HK\$2.0 million) in furniture, fixtures, equipment and leasehold improvement, approximately HK\$2.8 million (Six months ended 30 June 2008: approximately HK\$3.8 million) in motor vehicles and approximately HK\$5.7 million (Six months ended 30 June 2008: approximately HK\$1.8 million) in construction in progress.
- (b) no property, plant and equipment of the Group were disposed of for the six months ended 30 June 2009. The Group disposed of certain items of property, plant and equipment with carrying value amounted to approximately HK\$1.8 million and recognised a loss of approximately HK\$0.5 million in the consolidated income statement for the six months ended 30 June 2008.

11. INVENTORIES

	Unaudited 30 June 2009 HK\$'000	Audited 31 December 2008 HK\$'000
Coal	5,906	8,205
Spare parts and consumables	14,516	16,899
	20,422	25,104

12. ACCOUNTS RECEIVABLE

The Group's sales are billed to customers according to the terms of the relevant agreement with credit period normally ranging from 30 to 90 days. Based on the invoice dates, the ageing analysis of the Group's accounts receivable was as follows:

	Unaudited 30 June 2009 HK\$'000	Audited 31 December 2008 HK\$'000
Current – 90 days	137,492	49,443
91 – 180 days	1,158	11,416
Over 180 days	1,703	–
	140,353	60,859

All the accounts receivable were not impaired.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

13. ACCOUNTS AND BILLS PAYABLES

	Unaudited 30 June 2009 <i>HK\$'000</i>	Audited 31 December 2008 <i>HK\$'000</i>
Accounts payable	16,031	15,180
Bills payable	164,401	153,305
	180,432	168,485

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

	Unaudited 30 June 2009 <i>HK\$'000</i>	Audited 31 December 2008 <i>HK\$'000</i>
Current – 90 days	10,204	8,332
91 – 180 days	2,247	4,441
Over 180 days	3,580	2,407
	16,031	15,180

14. BANK LOANS

	Unaudited 30 June 2009 <i>HK\$'000</i>	Audited 31 December 2008 <i>HK\$'000</i>
Bank loans repayable within one year and classified as current liabilities	85,035	68,130

At 30 June 2009, bank loans of approximately HK\$45.3 million (31 December 2008: approximately HK\$45.4 million) were denominated in RMB and were secured by certain accounts receivable, bear interest at fixed rate ranging from 4.37% to 5.44% per annum (31 December 2008: a fixed rate of 7.3% per annum); bank loans of approximately HK\$39.7 million (31 December 2008: approximately HK\$22.7 million) were denominated in RMB and were unsecured, bear interest at fixed rate ranging from 4.86% to 12.14% per annum (31 December 2008: a fixed rate of 12.14% per annum) and of approximately HK\$45.3 million (31 December 2008: approximately HK\$45.4 million) was guaranteed by an independent third party.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

15. CONVERTIBLE BONDS

On 24 October 2006, the Company issued convertible bonds ("CB1") in the principal amount of HK\$20 million as part of the consideration for the acquisition of Clear Interest Limited ("CIL"). CB1 bear interest at 1% per annum with maturity date of 3 years from the date of issuance and are repayable after 3 years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$0.35 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues) at any time after the second anniversary from the date of issuance. On 4 March 2009, the holder of CB1, Dragon Rich Resources Limited ("Dragon Rich"), a substantial shareholder and connected party of the Company, fully converted the CB1 into ordinary shares of the Company.

On 16 November 2007, the Company issued a zero coupon convertible bonds ("CB2") to Dragon Rich with principal amount of HK\$230 million as for the settlement of the promissory notes issued by the Company. CB2 were issued with an initial conversion price of HK\$1.1 per share and will mature on 16 November 2010. The conversion price is subject to adjustment for consolidations, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. As at 30 June 2009, Dragon Rich held CB2 with outstanding principal amount of HK\$227 million. The conversion price was adjusted from HK\$1.1 per share to HK\$0.61 per share upon the approval of the Bonus Issue on 30 April 2009.

On 10 December 2007, the Company issued a 2% coupon convertible bonds ("CB3") with principal amount of US\$25 million (equivalent to approximately HK\$194.5 million). CB3 were issued with an initial conversion price of HK\$1.8 per share and will mature on 10 December 2010. The conversion price is subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. Both the Company and the holders of CB3 have redemption options. On 10 December 2009, the holders of CB3 will have the right at such holders' options, to require the Company to redeem all or some only of the CB3. On or at any time after 10 December 2009 and prior to the maturity date, the Company may redeem all or some only of the CB3 at their early redemption amount on the date fixed for such redemption if the average closing price per share for 20 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, is at least 160% of the early redemption amount in effect on such trading day divided by the conversion ratio. The CB3 was secured by the Company's entire interest in two subsidiaries, namely CIL and Zhong Yue Energy Development (Shenzhen) Company Limited. The conversion price was adjusted from HK\$1.8 per share to HK\$1.0 per share upon the approval of the Bonus Issue on 30 April 2009. According to the conversion price reset terms of the CB3, the conversion price was further adjusted from HK\$1.0 per share to HK\$0.88 per share with effect from 10 June 2009.

The effective interest expense on CB1 and CB2 of which Dragon Rich was the bondholder for the six months ended 30 June 2009 was approximately HK\$24.0 million (Six months ended 30 June 2008: approximately HK\$13.5 million). The effective interest expense on CB3 of which independent third parties were the bondholders for the six months ended 30 June 2009 was approximately HK\$16.5 million (Six months ended 30 June 2008: approximately HK\$15.4 million).

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

15. CONVERTIBLE BONDS (CONTINUED)

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

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

Movement of liability component for the six months ended 30 June 2009 and 2008 is as follows:

	Unaudited 30 June 2009			Total HK\$'000
	CB1 HK\$'000	CB2 HK\$'000	CB3 HK\$'000	
At beginning of the period	18,658	105,884	167,796	292,338
Payment of interest	(72)	–	(1,945)	(2,017)
Interest expense	317	23,638	16,465	40,420
Conversion of convertible bonds	(18,903)	–	–	(18,903)
At end of the period	–	129,522	182,316	311,838
Less: amount included under current liabilities	–	–	(182,316)	(182,316)
Amount included under non-current liabilities	–	129,522	–	129,522

	Unaudited 30 June 2008			Total HK\$'000
	CB1 HK\$'000	CB2 HK\$'000	CB3 HK\$'000	
At beginning of the period	17,107	71,027	142,311	230,445
Payment of interest	–	–	(1,945)	(1,945)
Interest expense	849	16,288	13,969	31,106
Conversion of convertible bonds	–	(1,043)	–	(1,043)
At end of the period	17,956	86,272	154,335	258,563

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

15. CONVERTIBLE BONDS (CONTINUED)

Movement of compound derivative component for the six months ended 30 June 2009 and 2008 is as follows:

	Unaudited 30 June 2009			Unaudited 30 June 2008		
	CB2 HK\$'000	CB3 HK\$'000	Total HK\$'000	CB2 HK\$'000	CB3 HK\$'000	Total HK\$'000
At beginning of the period	18,444	4,788	23,232	120,119	38,687	158,806
Fair value loss/(gain)	200,382	92,339	292,721	(72,892)	(26,112)	(99,004)
Conversion of convertible bonds	-	-	-	(881)	-	(881)
At end of the period	218,826	97,127	315,953	46,346	12,575	58,921
Less: amount included under current liabilities	-	(97,127)	(97,127)	-	-	-
Amount included under non-current liabilities	218,826	-	218,826	46,346	12,575	58,921

At 30 June 2009, the compound derivative financial instruments were revalued by BMI Appraisals Limited. The fair value of the derivative component of the CB2 was calculated using the Binomial Option Pricing model. The fair value of the compound derivative components of CB3 was calculated using Binomial Option Pricing model, Hull-White model and Trinomial model. These valuation techniques are based on available observable market data. The major inputs used in the models as at 30 June 2009 and 30 June 2008 were as follows:

	CB2 30 June 2009	CB3 30 June 2009	CB2 30 June 2008	CB3 30 June 2008
Stock price	HK\$1.07	HK\$1.07	HK\$0.85	HK\$0.85
Expected volatility	82.17%	82.11%	54.10%	54.09%
Risk free rate	0.32%	0.355%	2.605%	2.635%
Expected life	17 months	17 months	29 months	29 months

Any changes in the major inputs into the models will result in changes in the fair value of the compound derivative component. The change in the fair value of the compound derivative component for the six months ended 30 June 2009 resulted in a fair value loss of approximately HK\$292.7 million (Six months ended 30 June 2008: a fair value gain of HK\$99.0 million), which has been recorded as the "Change in fair value of compound derivative financial instruments" in the consolidated income statement for the six months ended 30 June 2009.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

16. SHARE CAPITAL

	Notes	Unaudited 30 June 2009		Unaudited 30 June 2008	
		Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:					
Ordinary shares of HK\$0.1 each		3,000,000,000	300,000	3,000,000,000	300,000
Issued and fully paid:					
At 1 January		669,589,885	66,959	666,862,614	66,686
Exercise of share options	(a)	14,400,000	1,440	-	-
Conversion of convertible bonds	(b)	57,142,857	5,714	2,727,271	273
Bonus Issue	(c)	591,386,193	59,139	-	-
At end of period		1,332,518,935	133,252	669,589,885	66,959

Notes:

(a) During the six months ended 30 June 2009, 7,500,000, 5,000,000 and 1,900,000 share options were exercised at the subscription price of HK\$0.355 per share, HK\$1.376 per share and HK\$0.764 per share respectively, giving rise to the issue of 14,400,000 new ordinary shares of HK\$0.1 each for a total consideration of approximately HK\$11.0 million. Accordingly, additional share capital of approximately HK\$1.4 million and share premium of approximately HK\$9.6 million, before the amount transferred from share option reserve, were resulted.

(b) During the six months ended 30 June 2009, 57,142,857 ordinary shares in aggregate were issued, at the conversion price of HK\$0.35 per share, to Dragon Rich upon the conversion of the CB1. As a result, there was an increase in the share capital and share premium of approximately HK\$5.7 million and HK\$13.2 million (excluding the amount that would be transferred from equity component of convertible bonds to share premium) respectively.

During the six months ended 30 June 2008, 2,727,271 ordinary shares in aggregate were issued, at the conversion price of HK\$1.1 per share, to the bondholders upon the partial conversion of the CB2. As a result, there was an increase in the share capital and share premium of approximately HK\$0.3 million and HK\$1.7 million respectively.

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

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

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

17. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants ("Participants") of the Scheme include any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The Scheme was approved by shareholders at a special general meeting on 20 October 2004 in substitution of the old share option scheme (the "Old Scheme") of the Company adopted on 15 May 1997. The Scheme became effective on 20 October 2004 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

Under the Scheme, the board of directors of the Company (the "Board") may at its discretion grant options to the Participants to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the shares in issue as at the adoption date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 30% of the shares in issue from time to time.

The Company allotted 20,400,000 share options to the directors of the Company and the employees of the Group according to the adjustment terms of the Scheme upon the approval of the Bonus Issue during the six months ended 30 June 2009. The initial exercise prices of the share options were at HK\$0.355 per share and HK\$1.376 per share. Upon approval of the Bonus Issue, the exercise prices of the share options were adjusted to HK\$0.197 per share and HK\$0.764 per share respectively.

The Company granted 26,850,000 share options under the Scheme during the six months ended 30 June 2008 and the fair value was HK\$0.71 per option. In total, approximately HK\$19.1 million of employee compensation expense was included in the consolidated income statement for the six months ended 30 June 2008, the corresponding amount of which was credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

The fair value of the share options granted during the six months period ended 30 June 2008 was valued by BMI Appraisals Limited, an independent firm of professional valuers, estimated as at the date of grant using Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the weighted average inputs to the model used for the six months period ended 30 June 2008.

Dividend yield (%)	N/A
Expected volatility (%)	82.92
Risk-free interest rate (%)	3.130
Expected life of option (year)	N/A
Price of the Company's shares at the date of grant of the share options (HK\$)*	1.41

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

17. SHARE OPTION SCHEME (CONTINUED)

The expected life of the options was based on the historical data in past and was not necessarily indicative of the exercise patterns that might occur. The expected volatility was determined by reference to historical data and reflected the assumption that the historical volatility was indicative of future trends, which might also not necessarily be the actual outcome.

* The price of the Company's shares disclosed at the date of grant of the share options was the Stock Exchange closing price on the trading day on which the options were granted.

During the six months ended 30 June 2009, the directors of the Company and the employees of the Group exercised options to subscribe for 7,500,000 and 6,900,000 ordinary shares of the Company respectively. No share options were exercised for the six months ended 30 June 2008.

100,000 share options of the employees of the Group were forfeited during the six months ended 30 June 2009 (Six months ended 30 June 2008: Nil).

18. CAPITAL COMMITMENTS

At 30 June 2009, the Group had capital expenditure commitments in relation to the purchase of property, plant and equipment contracted but not provided for, net of deposits paid, amounted to approximately HK\$5.9 million (31 December 2008: approximately HK\$29.1 million).

19. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim financial report, the Group had the following material transactions with related parties during the period:

(i) *Compensation of key management personnel*

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Total remuneration of key management personnel during the period	3,025	1,738

(ii) *Conversion of convertible bonds*

As mentioned in notes 15 and 16(b), on 4 March 2009, CB1 was fully converted into ordinary shares of the Company by Dragon Rich. Dragon Rich is a company incorporated in the British Virgin Islands which is beneficially owned as to 40% by Mr. Bao Hongkai ("Mr. Bao"), as to 20% by Mr. Wu Jiahong ("Mr. Wu"), as to 20% by Mr. Xu Lidi ("Mr. Xu") and as to 20% by Mr. Wang Xinkai respectively. Mr. Bao, Mr. Wu and Mr. Xu are the executive directors of the Company and the directors of Dragon Rich.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2009

20. POST BALANCE SHEET EVENTS

- (a) During July and August 2009, 79,568,182 ordinary shares in aggregate were issued, at the conversion price of HK\$0.88 per share, to the bondholders upon the conversion of the CB3 with principal amount of US\$9 million (equivalent to approximately HK\$70.0 million). As a result, there was an increase in the share capital and share premium of approximately HK\$8.0 million and HK\$92.6 million respectively and the outstanding principal amount of CB3 was US\$16 million (equivalent to approximately HK\$124.5 million).
- (b) On 8 September 2009, a fatal explosion occurred in a coal mine in Henan Province, the PRC. According to the suspension order given by the local government authority, coal mines with licensed annual production capacity lower than 300,000 tons were required to suspend operations. Some of the coal mines within Henan Province, including four coal mines of the Group, namely Xiangyang Coal Mine, Xingyun Coal Mine, Xiaohe Coal Mine No. 2 and Xiaohe Coal Mine No. 3, were required to suspend operations immediately for safety inspection. As at the date of this report, the Board cannot ascertain the length of the suspension period and is unable to estimate the respective financial effects.

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

This unaudited interim financial report was approved and authorised for issue by the Board on 14 September 2009.

CORPORATE INFORMATION

DIRECTORS

Mr. Bao Hongkai (*Chairman*)
Mr. Cheng Koon Cheung
Mr. Li Chun On
Mr. Wu Jiahong
Mr. Xu Lidi
Mr. Chan Kin Sang*
Mr. Choi Man Chau, Michael*
Mr. He Guangcai*
Mr. Ng Wing Hang, Patrick*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. Chan Kin Sang
Mr. Choi Man Chau, Michael
Mr. Ng Wing Hang, Patrick

NOMINATION COMMITTEE

Mr. Chan Kin Sang
Mr. Choi Man Chau, Michael
Mr. Ng Wing Hang, Patrick

REMUNERATION COMMITTEE

Mr. Chan Kin Sang
Mr. Choi Man Chau, Michael
Mr. Ng Wing Hang, Patrick

COMPANY SECRETARY

Mr. Li Chun On

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REGISTRAR IN HONG KONG

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PRINCIPAL BANKER

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