金山能源集團有限公司

KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

Enter a
new era with
a strong
team

Interim Report **2010**

Corporate Information

Board of Directors

Executive Directors

Wang Da Yong *(Chairman)*
Tian Wenwei
Wang Tongtian

Non-Executive Directors

Li Yi
Su Bin

Independent Non-Executive Directors

Cao Kuangyu
Chiu Sui Keung
Jacobsen William Keith

Audit Committee

Chiu Sui Keung *(Chairman)*
Cao Kuangyu
Jacobsen William Keith

Remuneration Committee

Cao Kuangyu *(Chairman)*
Chiu Sui Keung
Wang Da Yong
Jacobsen William Keith

Strategy and Investment Committee

Wang Da Yong *(Chairman)*
Wang Tongtian
Li Yi
Cao Kuangyu

Advisory Committee

Wang Senhao *(Chairman)*
Chen Biting *(Co-Chairman)*
Zhang Changsheng

Coal Mine Production Safety and Technical Committee

Wang Da Yong *(Chairman)*
Wang Tongtian
Li Yi

Authorised Representatives

Wang Da Yong
Tian Wenwei

Company Secretary

Lee Tao Wai

Auditors

Ernst & Young
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Principal Bankers

China Minsheng Bank
China Construction Bank
Bank of East Asia
Bank of China (Hong Kong)

Registered Office & Principal Place of Business Hong Kong

Room 3603, 36/F
One Exchange Square
Central
Hong Kong

Share Registrar

Tricor Secretaries Limited
Level 25, Three Pacific Place
1 Queen's Road East, Hong Kong

Company Website

http://www.663hk.com

Stock Code

00663

Results Highlights and Operating Data

- Revenue of HK$374 million (2009: HK$40 million) — sharp increase by HK$334 million or 9 times.
- Gross profit of HK$189 million (2009: HK$0.9 million) and gross margin of 50.5% (2009: 2.2%).
- Loss attributable to owners of the Company of HK$522 million (2009: HK$0.8 million). Excluding the fair value loss of convertible notes of HK$622 million (2009: HK$Nil), the Group recorded a profit attributable to owners of the Company of HK$100 million (2009: loss of HK$0.8 million).
- EBITDA[1] of HK$237 million (2009: loss of HK$9 million) and EBITDA margin of 63.4% (2009: -22.5%).

(HK$'000)	**1H 2009**	**FY 2009**	**1H 2010**
Revenue	40,064	88,710	374,394
Gross profit	875	6,260	188,922
Gross profit margin	2.2%	7.1%	50.5%
EBITDA[1]	(9,193)	(13,411)	237,181
EBITDA margin	–22.5%	–15.1%	63.4%
Loss for the period attributable to owners of the Company	(771)	(1,078,519)	(521,535)

JORC-compliant resources — all seams[2]	203.87 Mt
JORC-compliant reserves — proved and recoverable[2]	71.86 Mt
Actual output in 1H 2010	1.50 Mt
Projected output in FY 2010[2]	4.40 Mt
Projected output in FY 2011[2]	6.20 Mt
Average realized selling price (exclusive of VAT) in 1H 2010	RMB213/tonne

Notes:

1 EBITDA is defined as loss before income tax plus finance costs, depreciation, amortisations, fair value loss of convertible notes, non-cash equity-settled share option expense, impairment of goodwill and less gain on disposal of subsidiary.

2 Source: BOYD technical report dated 18 November 2009.

Milestone

Target : To become a leading and diversified coal enterprise in the coal mining industry in China

2010

14 July	The Group entered into service contracts with the executive directors The Coal Mine Production Safety and Technical Committee was established
26 April / 9 June	The Group entered into a MOU / Framework agreement for a proposed acquisition of coal mines in Shanxi Province
1 March	The Advisory Committee was established
26 February	Dr. Wang Da Yong was appointed as the chairman of the Group
18 February	The company name was changed to King Stone Energy Group Limited

2009

21 December	The acquisition of Triumph Fund A Limited was completed, thus the Group commenced the coal mining business
15 September	The Group entered into a sale and purchase agreement to acquire 100% interest in Triumph Fund A Limited which operates a thermal coal mine situated in Ordos City, Inner Mongolia
1 July	Dr. Wang Da Yong was appointed as an executive director and chief executive officer of the Group

1990

30 November	Listed on the Main Board of Hong Kong Stock Exchange

Management Structure

Strategic Level

Advisory Committee

Chairman: Wang Senhao
Co-Chairman: Chen Biting
Vice Chairman: Zhang Changsheng

Board Level

Strategy and Investment Committee

- Wang Da Yong*
- Wang Tongtian
- Li Yi
- Cao Kuangyu

Remuneration Committee

- Cao Kuangyu*
- Chiu Sui Keung
- Wang Da Yong
- Jacobsen William Keith

Aduit Committee

- Chiu Sui Keung*
- Cao Kuangyu
- Jacobsen William Keith

Coal Mine Production Safety and Technical Committee

- Wang Da Yong*
- Wang Tongtian
- Li Yi

Operational Level

Operation team consists of experienced mine experts

* Individuals leading the Committee

Chairman's Statement

In the first half of 2010, King Stone Energy has undergone rapid development and has achieved remarkable breakthrough in the areas of both business and management. Since venturing successfully into the coal industry at the end of last year, the Group has constantly sought acquisition opportunities on top of our existing business and spared no effort in achieving the target production volume.

While devoting extensive resources to business expansion, the Group also attached great focus to corporate management. We continued to improve the management structure and upgrade the quality of the management team. During the year, the Group has appointed several professionals with extensive industry experience to the board of the Group and has entered into service contracts with executive directors of the Group respectively to further improve the management structure and stabilize the management team. Recently, the Group has formed the Coal Mine Production Safety and Technical Committee to shoulder the corporate responsibility of ensuring production safety and environmental protection.

During the period, China's economy has further improved. The increase in the production volumes of major coal consuming industries including power, steel and cement has driven the market demand for coal. In respect of the coal prices, under the influence of continuous economic development, further progress of small mines consolidation and the extreme climate around the country during this period, the thermal coal price kept in stable.

After in-depth studies and probing of the coal industry by the professional team, the Group continues to identify suitable targets for acquisitions after the successful acquisition of Eerduosi Hengtai Coal Co. Ltd in Inner Mongolia in 2009. In June 2010, the Group entered into a framework agreement in relation to the acquisition of two large coal mines in Shanxi province to further expand its coal business. The Group's coal mines are characterized by their abundant reserves, high quality and ideal geographical locations, which position the Group well to develop its coal business.

Moreover, the coal mine operated by the Group in Inner Mongolia has contributed a significant profit and cash flow during the first half of this year, and a new production working face will commence production in the third quarter of this year. It is expected that the Group's coal production volume will surge, and the income and operating profits from the coal business will increase further. The Group is upbeat about the annual results of the coal business.

Due to the continued sluggish demand for phosphorous chemical products since 2008, the Group does not expect the phosphorous business to turn around in the near future. Therefore, the Group is determined to dispose of a part of the segment that failed to meet performance and financial targets after thorough consideration. It is expected that the disposal will bring a positive effect to the financial position of the Group. Additionally, in view of the insignificant improvement in the optical business, the Group will continue to monitor the operation of the optical business cautiously so as to seize any possible business opportunities when appropriate.

In order to offer support to its long-term business development, the Group has formed a strong management team of professionals and continuously upgraded its quality and stability. On 20 May 2010, besides the directors and I, all of whom have rich experience in the coal industry, Mr. Wang Tongtian, the former deputy general manager of China Shenhua Group Coal Transportation and Distribution Company, has been re-designated from Non-executive Director to Executive Director in order for him to devote himself to optimizing the Company's coal operation and production safety management. Moreover, on 14 July 2010, the Group has appointed Mr. Su Bin, who has extensive experience in corporate management, as Non-executive Director. Given Mr. Su's extensive experience and close relationship with China's political and business sectors, he can hopefully contribute to the Company's future development. Meanwhile, two executive directors, Mr. Tian Wenwei and Mr. Wang Tongtian, and I have entered into separate service contracts with the Group, which symbolizes our commitment to the long-term development of King Stone Energy.

In addition to constantly recruiting the right talents in the industry, the Group continues to enhance its corporate management. On 14 July 2010, we formed the Coal Mine Production Safety and Technical Committee to effectively manage and monitor coal production for ensuring the safety of coal miners. A strong management team and a sound corporate management structure will support the Group in expanding its coal business, as well as in bringing quality services to our customers and steady returns to our shareholders.

After the successful transformation into a coal enterprise at the end of last year, the potential of the Group's new business has been gradually apparent in the business performance in the first half of 2010. The Group's income and operating profits have increased significantly during this period. With the expansion in coal production capacity in the second half of the year, it is expected that the performance of the Group will be even better. I am fully confident of the long-term development of the coal industry, and strongly believe that our business transformation is indeed a wise decision. Being the Chairman of the Group, I will continue to lead the Group to achieve our goal, fully enhance our competitiveness and bring great returns to our shareholders.

On behalf of King Stone Energy Group Limited, I would like to convey our gratitude to all staff, customers and business partners who have contributed towards the development of the Group. I would also like to take this opportunity to thank the shareholders who have been supporting and trusting the Group all this time. We shall keep up our efforts and conscientiously carry out our duties, and achieve better results as a show of our gratitude to everyone who has supported us!

Wang Da Yong
Chairman

19 August 2010

The Board of Directors (the "Board") of King Stone Energy Group Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 with comparative figures as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Notes	For the six months ended 30 June **2010** **HK$'000** **(unaudited)**	 2009 HK$'000 (unaudited)
REVENUE	*4*	**374,394**	40,064
Cost of sales		**(185,472)**	(39,189)
Gross profit		**188,922**	875
Fair value loss of convertible notes	*13*	**(622,370)**	—
Other income and gains		**2,605**	9,222
Selling and distribution costs		**(3,003)**	(1,922)
Administrative expenses		**(43,272)**	(8,903)
Finance costs	*5*	**—**	(43)
Loss before income tax	*6*	**(477,118)**	(771)
Income tax	*7*	**(37,553)**	—
Loss for the period		**(514,671)**	(771)
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		**23,066**	(44)
Other comprehensive income/(loss) for the period, net of tax		**23,066**	(44)
Total comprehensive loss for the period		**(491,605)**	(815)
Profit/(loss) for the period attributable to:			
Owners of the Company		**(521,535)**	(771)
Non-controlling interests		**6,864**	—
		(514,671)	(771)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**(499,857)**	(815)
Non-controlling interests		**8,252**	—
		(491,605)	(815)
Loss per share attributable to ordinary equity holders of the Company	*8*		
Basic and diluted		**(3.96) cents**	(0.02) cents

Condensed Consolidated Statement of Financial Position

As at 30 June 2010 and 31 December 2009

	Notes	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**975,176**	851,815
Prepaid land premiums		**12,384**	12,416
Goodwill		**—**	—
Mining rights		**2,366,065**	2,384,988
Prepayments		**312,538**	233,169
Total non-current assets		**3,666,163**	3,482,388
CURRENT ASSETS			
Inventories		**7,966**	6,768
Trade and bills receivables	*10*	**241,596**	34,598
Prepayments, deposits and other receivables		**213,698**	83,858
Due from related parties		**2,297**	442
Pledged deposits		**34,846**	—
Cash and cash equivalents		**351,774**	143,024
Total current assets		**852,177**	268,690
CURRENT LIABILITIES			
Trade and bills payables	*11*	**77,652**	25,558
Other payables and accruals		**424,053**	152,000
Interest-bearing bank borrowings	*12*	**436,430**	56,790
Tax payable		**52,899**	5
Due to related parties		**—**	151,611
Due to directors		**—**	41
Total current liabilities		**991,034**	386,005
NET CURRENT LIABILITIES		**(138,857)**	(117,315)
TOTAL ASSET LESS CURRENT LIABILITIES		**3,527,306**	3,365,073

Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2010 and 31 December 2009

	Notes	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		61,584	35,326
Interest-bearing bank borrowings	12	861,375	851,850
Convertible notes	13	2,012,425	2,411,000
Deferred tax liabilities		555,361	564,064
Total non-current liabilities		3,490,745	3,862,240
Net assets/(liabilities)		36,561	(497,167)
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	158,698	77,338
Reserves		(210,773)	(654,889)
		(52,075)	(577,551)
Non-controlling interests		88,636	80,384
Total equity/(deficiency in assets)		36,561	(497,167)

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010 (unaudited)

	Attributable to owners of the Company								
	Issued share capital HK$'000	Share premium account HK$'000	PRC Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	77,338	1,133,198	7,904	6,805	764	(1,803,560)	(577,551)	80,384	(497,167)
Total comprehensive income/(loss) for the period	—	—	—	21,678	—	(521,535)	(499,857)	8,252	(491,605)
Recognition of equity-settled share-based payment expenses (note 15(a))	—	—	—	—	4,538	—	4,538	—	4,538
Conversion of convertible notes (note 14)	81,360	939,585	—	—	—	—	1,020,945	—	1,020,945
Share issue expense	—	(150)	—	—	—	—	(150)	—	(150)
At 30 June 2010	158,698	2,072,633	7,904	28,483	5,302	(2,325,095)	(52,075)	88,636	36,561

For the six months ended 30 June 2009 (unaudited)

	Attributable to owners of the Company								
	Issued share capital HK$'000	Share premium account HK$'000	PRC Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009	31,249	723,462	7,904	13,717	764	(725,041)	52,055	—	52,055
Total comprehensive loss for the period	—	—	—	(44)	—	(771)	(815)	—	(815)
Issue of shares	848	7,145	—	—	—	—	7,993	—	7,993
Disposal of a subsidiary	—	—	(1,982)	(6,893)	—	—	(8,875)	—	(8,875)
At 30 June 2009	32,097	730,607	5,922	6,780	764	(725,812)	50,358	—	50,358

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash flows from/(used in) operating activities	**97,088**	(37,463)
Net cash flows from/(used in) investing activities	**(222,416)**	27,939
Net cash flows from financing activities	**378,853**	7,950
Net increase/(decrease) in cash and cash equivalents	**253,525**	(1,574)
Cash and cash equivalents at beginning of period	**98,739**	84,435
Effect of foreign exchange rate changes	**(490)**	(44)
Cash and cash equivalents at end of period	**351,774**	82,817
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**351,774**	82,817

Notes to Condensed Financial Statements

1. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2010 are unaudited but have been reviewed by the Audit Committee.

These financial statements have been prepared under the going concern basis, notwithstanding that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK$521,535,000 for the six months ended 30 June 2010 and the Group had net current liabilities of HK$138,857,000 as at 30 June 2010. This is because (i) after the reporting period, in August 2010, a creditor had agreed to extend the repayment date of the Group's liabilities due to him of approximately HK$115 million as at 30 June 2010 to 1 January 2013; (ii) included in current liabilities were receipts in advance from customers of approximately HK$72 million which would be recognised as revenue of the Group upon delivery of goods and were not expected to generate material cash outflow of the Group; and (iii) the directors estimate that the net operating cash inflow generated by the Group's coal mining business shall be adequate to meet with the liabilities and capital commitment of the Group as and when they fall due.

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2009 annual financial statements.

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as stated in note 2 below.

2. Changes in Accounting Policies

The HKICPA has issued certain new, revised or amendments to the standards and interpretations (the "new HKFRSs") and the Group has applied the followings new HKFRSs, which are or have become effective for the first time for the current year's financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the interim financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

2. Changes in Accounting Policies (continued)

The adoption of the other new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Operating Segment Information

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009.

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the phosphorus products segment invests in trading of phosphorus products;

(b) the optical products segment invests in trading of optical products; and

(c) the coal mining segment invests in mining and selling of coal.

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2009.

3. Operating Segment Information (continued)

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

For the six months ended 30 June 2010

	Phosphorus products HK$'000 (unaudited)	Optical products HK$'000 (unaudited)	Coal mining HK$'000 (unaudited)	Corporate and other HK$'000 (unaudited)	Total HK$'000 (unaudited)
Segment revenue:					
Revenue from external customers	11,155	1,567	361,672	—	374,394
Other revenue	1,282	78	1,216	29	2,605
Total revenue	12,437	1,645	362,888	29	376,999
Segment results	(558)	(478)	159,611	—	158,575
Reconciliation:					
Bank interest income					430
Fair value loss of convertible notes					(622,370)
Corporate and other unallocated expenses					(13,753)
Loss before income tax					(477,118)
Income tax					(37,553)
Loss for the period					(514,671)
Segment assets	7,296	3	4,121,789	—	4,129,088
Reconciliation:					
Cash and cash equivalents					351,774
Pledged deposits					34,846
Corporate and other unallocated assets					2,632
Total assets					4,518,340
Segment liabilities	22,363	—	540,114	—	562,477
Reconciliation:					
Interest-bearing bank borrowings					1,297,805
Tax payables					52,899
Convertible notes					2,012,425
Deferred tax liabilities					555,361
Corporate and other unallocated liabilities					812
Total liabilities					4,481,779

3. Operating Segment Information (continued)

For the six months ended 30 June 2009

	Phosphorus products HK$'000 (unaudited)	Optical products HK$'000 (unaudited)	Coal mining HK$'000 (unaudited)	Corporate and other HK$'000 (unaudited)	Total HK$'000 (unaudited)
Segment revenue:					
Revenue from external customers	8,388	31,676	—	—	40,064
Other revenue	8,995	—	—	227	9,222
Total revenue	17,383	31,676	—	227	49,286
Segment results	248	(84)	—	—	164
Reconciliation:					
Bank interest income					228
Corporate and other unallocated expenses					(1,120)
Finance costs					(43)
Loss before income tax					(771)
Income tax					—
Loss for the period					(771)
Segment assets	28,667	12,084	—	—	40,751
Reconciliation:					
Cash and cash equivalents					82,817
Corporate and other unallocated assets					398
Total assets					123,966
Segment liabilities	59,669	13,639	—	—	73,308
Reconciliation:					
Corporate and other unallocated liabilities					300
Total liabilities					73,608

Geographical information of the segment revenue

During the period, over 90% of revenue from each of the segments is generated from customers located in Mainland China (2009: East Asia).

3. Operating Segment Information (continued)

Information about major customers

During the period, the Group had transactions with three (2009: one) external customers which contributed to over 10% of the Group's total revenue. The revenue generated from these customers amounted to HK$179,164,000 (2009: HK$31,676,000).

4. Revenue

Revenue, which is also the Group's turnover, represents the sales at the invoiced value of goods sold to customers, net of sales tax, value added tax, goods returns and allowances.

5. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on bank loans wholly repayable within five years	**39,984**	43
Less: Interest capitalised as property, plant and equipment	**(39,984)**	—
	—	43

6. Loss Before Income Tax

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

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold	**185,472**	39,189
Depreciation	**42,031**	160
Amortisation of prepaid land premiums	**166**	—
Amortisation of mining rights	**45,194**	—
Reversal of impairment of trade receivables	**(1,280)**	—
Gain on disposal of a subsidiary	**—**	(8,625)

7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2010 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current — Hong Kong	**—**	—
— elsewhere	**52,433**	—
Deferred	**(14,880)**	—
	37,553	—

8. Loss per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 13,164,276,703 (2009: 3,192,861,034) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2010 and 2009 in respect of a dilution as the share options of the Company outstanding during these periods and the deemed conversion of the convertible notes issued by the Company on 21 December 2009 have anti-dilutive effects on the basic loss per share amounts for these periods.

9. Property, Plant and Equipment

	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
At beginning of year/period		
Cost	**852,931**	2,798
Accumulated depreciation	**(1,116)**	(357)
Net carrying amount	**851,815**	2,441
At beginning of year/period, net of accumulated depreciation	**851,815**	2,441
Additions	**155,165**	14,648
Acquisitions of subsidiaries	**—**	838,123
Depreciation provided during the year/period	**(42,031)**	(1,192)
Written back on disposal	**(275)**	—
Disposal of a subsidiary	**—**	(2,205)
Exchange realignment	**10,502**	—
At end of year/period, net of accumulated depreciation	**975,176**	851,815
At end of year/period		
Cost	**1,018,596**	852,931
Accumulated depreciation	**(43,420)**	(1,116)
Net carrying amount	**975,176**	851,815

10. Trade and Bills Receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payments in form of bills or in advance is normally required. The credit period is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to various diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

10. Trade and Bills Receivables (continued)

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the payment due date, is as follows:

	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
0 to 30 days	**231,080**	17,610
31 to 60 days	**—**	5,990
61 to 90 days	**2,082**	1,930
91 to 180 days	**—**	1,863
181 to 365 days	**7,111**	4,597
More than 365 days	**36,043**	38,220
	276,316	70,210
Provision for impairment	**(34,720)**	(35,612)
	241,596	34,598

11. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
0 to 30 days	**69,524**	7,270
31 to 60 days	**154**	5,794
61 to 90 days	**158**	3,809
91 to 180 days	**906**	668
181 to 365 days	**4**	1,995
More than 365 days	**6,906**	6,022
	77,652	25,558

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

12. Interest-bearing Bank Borrowings

	Effective interest rate (%)	Maturity	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
Current				
Bank loans — unsecured	5.31–7.97	2010	**436,430**	56,790
Non-current				
Bank loans — secured	5.92–7.97	2011–2015	**861,375**	851,850
			1,297,805	908,640
Analysed into:				
Bank loans:				
Within one year			**436,430**	56,790
In the second year			**114,850**	113,580
In the third to fifth years, inclusive			**746,525**	567,900
Beyond the fifth year			**—**	170,370
			1,297,805	908,640

All bank loans of the Group are denominated in RMB. The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values as at the end of the reporting period.

Certain bank loan of RMB20,000,000 (equivalent to approximately HK$22,970,000) is subject to the floating interest rate for one-year loans published by the People's Bank of China, and the maturity date is 25 October 2010. Such bank loan is guaranteed by an independent third party.

Certain bank loan of RMB30,000,000 (equivalent to approximately HK$34,455,000) bears interest at a rate of 7.97% per annum, and the maturity date is 4 December 2010. Such bank loan is guaranteed by an independent third party.

12. Interest-bearing Bank Borrowings (continued)

Certain bank loan of RMB30,000,000 (equivalent to approximately HK$34,455,000) is subject to the floating interest rate for one-year loans published by the People's Bank of China plus 30% per annum, and the maturity date is 28 March 2011. Such bank loan is guaranteed by independent third parties and Mr. Hao Shenhai (a director of Eerduosi Hengtai Coal Co. Ltd (a subsidiary of the Group, "Hengtai")).

Certain bank loan of RMB100,000,000 (equivalent to approximately HK$114,850,000) bears interest at a rate of 5.31%, and the maturity date is 25 February 2011. Such bank loan is guaranteed by Mr. Hao Shenhai (a director of Hengtai).

Certain bank loan of RMB200,000,000 (equivalent to approximately HK$229,700,000) bears interest at a rate of 5.31%, and the maturity date is 6 April 2011. Such bank loan is guaranteed by Mr. Hao Shenhai (a director of Hengtai).

Certain bank loan of RMB500,000,000 (equivalent to approximately HK$574,250,000) is subject to the floating interest rate for five-year loans published by the People's Bank of China, and is repayable by instalments in 2011 to 2013. Such bank loan is secured by:

(i) guarantees given by Mr. Zhao Ming (a former shareholder of Triumph Fund A Limited, a subsidiary of the Group, "Triumph") and Mr. Hao Shenhai (a director of Hengtai);

(ii) pledges over the Group's mining rights; and

(iii) pledges over 95% and 5% equity interests in Hengtai held by Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. (a subsidiary of the Group) and Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. (a minority shareholder of Hengtai).

Certain bank loan of RMB250,000,000 (equivalent to approximately HK$287,125,000) is subject to the floating interest rate for six-year loans published by the People's Bank of China, and is repayable by instalments in 2014 to 2015. Such bank loan is guaranteed by Mr. Zhao Ming (a former shareholder of Triumph) and Mr. Hao Shenhai (a director of Hengtai), and is secured by the Group's mining rights.

13. Convertible Notes

On 21 December 2009, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK$1,805,000,000, for the acquisition of the entire issued share capital of Triumph and its subsidiaries. Such convertible notes have a 5 years maturity term, however, the Company has the right at any time after 3 years of the issuance date to redeem in whole or in part of the convertible notes at its face value. The convertible notes can be converted into ordinary shares at the initial conversion price of HK$0.0625 per share. During the reporting period, convertible notes with principal amount of HK$508,500,000 were converted into 8,136,000,000 ordinary shares at the conversion price of HK$0.0625 each.

Upon initial recognition, the Group's convertible notes were designated as financial liabilities at fair value through profit or loss with gains or losses on changes in fair value recognised in profit or loss in the period in which they arise.

The movements in the fair value and the principal amount of the Group's convertible notes are as follows:

	30 June 2010		31 December 2009	
	Fair value HK$'000 (unaudited)	**Principal amount HK$'000 (unaudited)**	Fair value HK$'000 (audited)	Principal amount HK$'000 (audited)
At beginning of year/period	**2,411,000**	**1,522,250**	—	—
Issue upon acquisition of subsidiaries	**—**	**—**	1,805,000	1,805,000
Converted into ordinary shares of the Company during the year/period	**(1,020,945)**	**(508,500)**	(447,831)	(282,750)
Changes in fair value	**622,370**	**—**	1,053,831	—
At end of year/period	**2,012,425**	**1,013,750**	2,411,000	1,522,250

14. Share Capital

	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each	**3,000,000**	3,000,000
Issued and fully paid:		
15,869,743,370 (2009: 7,733,743,370) ordinary shares of HK$0.01 each	**158,698**	77,338

The movements in share capital during the six months ended 30 June 2010 and the year ended 31 December 2009 were as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2009		3,124,862,734	31,249	723,462	754,711
Issue of new shares	*(a)*	84,880,636	849	7,151	8,000
Share issue expenses	*(a)*	—	—	(6)	(6)
Conversion of convertible notes	*(b)*	4,524,000,000	45,240	402,591	447,831
At 31 December 2009 and 1 January 2010		7,733,743,370	77,338	1,133,198	1,210,536
Conversion of convertible notes	*(c)*	8,136,000,000	81,360	939,585	1,020,945
Share issue expenses	*(c)*	—	—	(150)	(150)
At 30 June 2010 (unaudited)		15,869,743,370	158,698	2,072,633	2,231,331

14. Share Capital (continued)

Notes:

(a) On 6 February 2009, 84,880,636 new ordinary shares of par value of HK$0.01 each were issued, at the issue price of HK$0.09425 per share, for a total cash consideration, before expenses, of HK$8,000,000. The expenses related to the issue of such shares were HK$6,000.

(b) On 31 December 2009, 4,524,000,000 ordinary shares of par value of HK$0.01 each were issued upon partial conversion of the convertible notes with principal amount of HK$282,750,000. The fair value of such convertible notes was HK$447,831,000 (note 13), and the excess of the fair value of such convertible notes over the aggregate par value of HK$45,240,000 for the ordinary shares issued, which amounted to HK$402,591,000, was credited to the share premium account of the Company.

(c) During the period, 8,136,000,000 ordinary shares of par value of HK$0.01 each were issued upon partial conversion of the convertible notes with principal amount of HK$508,500,000. The fair value of such convertible notes was HK$1,020,945,000 (note 13), and the excess of the fair value of such convertible notes over the aggregate par value of HK$81,360,000 for the ordinary shares issued, which amounted to HK$939,585,000, was credited to the share premium account of the Company.

15. 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. Further details of the Scheme were disclosed in the Company's 2009 annual report.

The following share options were outstanding under the Scheme during the period:

		30 June 2010		31 December 2009	
	Notes	**Weighted average exercise price HK$ per share**	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At beginning of year/period		**0.125**	**12,320**	0.125	12,320
Granted during the year/period	*(a)*	**0.248**	**320,000**	—	—
At end of year/period	*(b)*	**0.243**	**332,320**	0.125	12,320

Notes:

(a) On 12 May 2010, the Group granted 115,000,000 and 205,000,000 share options with an exercise price of HK$0.248 per share to certain directors and employees of the Group. The first 50% of these options shall be exercisable for a period of 2 years commencing on 12 May 2011 and the remaining 50% of these options shall be exercisable for a period of 1 year commencing on 12 May 2012. The closing price of the Company's share in the Hong Kong Stock Exchange immediately before the date on which the options were granted was HK$0.241. The fair value of the aggregate 320,000,000 share options granted during the period was HK$45,600,000 of which HK$4,538,000 were recognised by the Group in profit or loss as an equity-settled share option expense during the period.

15. Share Option Scheme (continued)

Notes: (continued)

The fair value of equity-settled share options granted in 2010 was estimated, using the trinomial model, at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	—
Expected volatility (%)	111
Risk-free interest rate (%)	1.02
Expected life of options (year)	3
Closing share price at the date of grant (HK$ per share)	0.231
Expected turnover rate of grantees (%)	7

(b) The exercise price and exercise period of the share options outstanding as 30 June 2010 are as follows:

Number of options			Exercise price	Exercise period
Directors	**Employees**	**Total**	HK$ per share	
—	12,320,000	12,320,000	0.125	29 September 2008 to 28 September 2013
57,500,000	102,500,000	160,000,000	0.248	12 May 2011 to 11 May 2013
57,500,000	102,500,000	160,000,000	0.248	12 May 2012 to 11 May 2013
115,000,000	217,320,000	332,320,000		

At the end of the reporting period, the Company had 332,320,000 (31 December 2009: 12,320,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 332,320,000 additional ordinary shares of the Company and additional share capital of HK$3,323,200 and share premium of HK$77,576,800 (before issue expenses).

At the date of approval of these interim financial statements, the Company had 332,320,000 share options outstanding under the Scheme, which represented approximately 2.03% of the Company's shares in issue as at that date.

16. Operating Lease Commitments

The Group leases certain of its office premises under operating lease arrangements. Leases for the office premises are negotiated for a term of three years. None of the leases includes contingent rentals.

At 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
Within one year	**2,266**	450
In the second to the fifth year inclusive	**3,588**	225
	5,854	675

17. Capital Commitments

The Group had the following capital commitments in respect of acquisition of property, plant and equipment at the end of the reporting period:

	30 June 2010 HK$'000 (unaudited)	31 December 2009 HK$'000 (audited)
Contracted, but not provided for	**389,009**	281,530

18. Related Party Transactions

Apart from disclosed elsewhere in these interim financial statements, the Group had the following related party transactions during the period:

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Entity of which a director of the Company is its senior management		
Dongguan Hamwell Glasses Co. Ltd.		
— purchase of optical products	**—**	21,519
Entity with common directors with the Company		
Swank International Optical Company Limited		
— sale of optical products	**—**	(31,676)

The above related party transactions were priced on terms agreed between the Group and the related parties.

19. Event After the Reporting Period

(a) On 17 June 2010, the Company entered into a sale and purchase agreement with an independent third party, pursuant to which, the Company had conditionally agreed to sell and the purchaser had agreed to purchase Anchorage Trading Limited (a wholly-owned subsidiary of the Company), for a consideration of HK$1 million. The transaction was approved by the shareholders of the Company in the extraordinary general meeting held on 10 August 2010.

(b) On 29 July 2010, the Company's convertible notes with an aggregate principal amount of HK$31,250,000 were converted into 500,000,000 ordinary shares of the Company at a conversion price of HK$0.0625 per ordinary share.

(c) As further set out in note 1 to these interim financial statements, after the reporting period, in August 2010, an amount due to a creditor amounted to HK$115 million as at 30 June 2010 was restructured to be repaid on 1 January 2013.

Interim Dividends

The Board has resolved that no interim dividend will be declared in respect of the six months ended 30 June 2010 (2009: Nil).

Management Discussion and Analysis

Results and Business Review

The Group's revenue during the period comprised of the revenue generated from trading of optical and phosphorus products and mining and selling of coal. Despite the unsatisfactory performance of phosphorus and optical businesses during the period, after the completion of acquisition of coal mining business in Inner Mongolia in December 2009, the coal mining business contributed substantial revenue and profit to the Group and helped the Group recorded a turnaround in its results from operation. The revenue and segment profit from the coal mining segment were HK$361,672,000 and HK$159,611,000 respectively during six months ended 30 June 2010.

The Group is currently operating a large-scale coal mine in Inner Mongolia and producing quality thermal coal used in power generation through its subsidiary, Eerduosi Hengtai Coal Co. Ltd. During the first half of the current year, the raw coal output of the Group was approximately 1.5 million tonnes. In addition, a new production working face with production capacity of approximately 3 million tonnes per annum will be launched in August this year and is expected to complete and commence trial production at the end of September, by then, the production volume of the Group will be further increased.

During the six months ended 30 June 2010, the Group's revenue has increased to approximately HK$374,394,000 as compared with approximately HK$40,064,000 for the same period of last year. Overall gross profit increased from approximately HK$875,000 in the same period of last year to approximately HK$188,922,000. Such significant increases were mainly due to significant revenue generated from coal mining business. During the first half of 2010, the Group sold approximately 1.5 million tonnes of coal, and the average selling price was approximately RMB213 per tonne.

Selling and distribution costs and administrative expenses were approximately HK$3,003,000 and HK$43,272,000 respectively during the period compared with approximately HK$1,922,000 and HK$8,903,000 respectively for the same period of last year. The increases were in line with increase in turnover and were mainly attributable to coal mining business during the period. In addition, an equity-settled share option expenses of HK$4,538,000 was recognised by the Group in respect of the 320,000,000 share options granted in May 2010. The Group will continue to impose strict cost control and enhance efficiency through modernized management.

Results and Business Review (continued)

Loss attributable to owners of the Company was HK$521,535,000 (2009: HK$771,000) during the six months ended 30 June 2010. The significant increase in loss for the period was mainly attributable to fair value loss of convertible notes issued by the Company in December 2009 amounting to HK$622,370,000 (2009: HK$nil), which does not have any impact on the cashflow and business operation of the Group. Excluding the aforesaid fair value loss, the Group recorded a substantial profit attributable to owners of the Company amounting to HK$100,835,000 (2009: loss of HK$771,000) during the period.

Production safety

Realizing the importance of production safety in coal production and operation, the Group has adopted a series of measures to ensure production safety in coal mining. During the course of construction, the Group has complied with the stringent requirements on production safety, assuring safety of facilities like ventilation, drainage and supportive roof structure, etc. in the coal mines. In addition, there are comprehensive surveillance and monitoring systems in important sites of the mines. A scientific and efficient code of practice in relation to production safety is formulated to ensure that regulations are in place for the production and operation of coal mines. Intensive trainings on production safety are provided to all staff to make sure they could understand the knowledge and master the relevant techniques. Through all said measures, no obituary and serious injury was recorded by the Group ever since the commencement of operation of the coal mines.

The Company formed the Coal Mine Production Safety and Technical Committee in July 2010 and established the Coal Mine Production Safety and Technical Office in Taiyuan, the PRC. Experienced coal mine professionals were recruited to provide guidance and supervision with respect to areas such as production safety of the coal mines of the Company in order to further enhance the overall production safety level of coal mines and guarantee their safe operation.

Environmental protection

The Group puts high emphasis on the importance of environmental protection. During the course of operations of the mines, the Group takes into consideration through the requirements in respect of soil conservation, controls on pollutant emission and resource recycling in pursuant to the "Environmental Protection and Soil Conservation Standards" promulgated by the PRC government. Effective measures have been in place to ensure full compliance of the relevant rules and regulations.

Future Outlook

Looking ahead, coal prices are expected to remain at a high level with the support of the steady development of China's economy and the traditional peak season of coal consumption in the second half of the year.

Future Outlook (continued)

In the area of business development, gearing up the efforts on optimizing coal resources consolidation has become one of the focuses of the Twelfth Five-Year Plan of the national coal industry. Such an initiative would create a more favorable investment environment for the Group. We will continue to carry out the acquisition plan for mines in Shanxi, further details of which are set out in section headed "Significant Investments, Material Acquisitions and Disposals", which is expected to be completed within the next few months. At the same time, we will keep up our efforts in identifying mines in operation, exploring and studying potential projects for mergers and acquisitions, while seizing the opportunities to speed up negotiations with relevant mine operators with respect to mergers and acquisitions in order to perk up our production volume and broaden our product mix to include products such as coke and anthracite, with an aim to establish the Group as a leading and diversified coal enterprise. The Group has already set the target of increasing its annual coal output to 20 million tonnes by 2012. Moreover, the Company will continue to expand its customer network, so as to establish long-term partnerships with more customers and increase our supply to large-scale companies. We will also actively seek strategic partners to secure stable income for the Group. While coal mining and sales would constitute the pillar of the Group's future development, we will also continue to monitor the business performances and operating environments of the business segments of phosphorus and optical products closely in order to forge the relevant business plan and strategy.

With respect to production safety and environmental protection, the Group has put much emphasis on the production safety of coal mines and the importance of environmental protection. In view of this, the Group has established the Coal Mine Production Safety and Technical Committee, which is responsible for the corporate responsibility of employees' safety. In view of the spate of accidents involving coal mines under construction, the authority has implemented a series of rectification measures such as large-scale safety inspections. The Group expected the relevant departments will continue to reinforce the policies of closing and consolidating of small coal mines, and will carry out such measure nationwide in the second half of 2010. The Group will set aside sufficient resources accordingly to ensure a high level of production safety and environmental protection in all coal regions in the future.

In the area of corporate governance, the addition of experienced experts with extensive connections as well as relevant business development and corporate finance experience to the Group's management team will certainly bring more opportunities to the Group. The coming two years will see a rapid growth of the Group, and our excellent management will guide the Group's development and grow together with King Stone.

Even though policy-related factors such as the potential resource tax reform will affect cost control of coal enterprises, the Group could still create room for long-term development through its highly efficient consolidating capacity and the synergies among its various projects. We strongly believe that the development of the Group in the coal industry will give our shareholders better returns.

Liquidity and Financial Review

The Group mainly financed its day to day operations by internally generated cash flow and banking facilities during the period. As at 30 June 2010, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.86 : 1 compared with 0.70 : 1 for the year ended 31 December 2009.

As at 30 June 2010, the cash and cash equivalents of the Group were approximately HK$352 million (31 December 2009: HK$143 million). During the period, the Group recorded a net cash inflow generated from its operating activities of approximately HK$97.1 million (2009: net cash outflow of HK$37.5 million).

As at 30 June 2010, the Group had outstanding interest-bearing bank borrowings amounted to approximately HK$1,297.8 million. Of the Group's interest-bearing bank borrowings, 33.6%, 8.9% and 57.5% respectively were repayable within one year, in the second year and in the third to the fifth year, inclusive. All bank loans of the Group were denominated in RMB. As at 30 June 2010, bank loans of approximately HK$918.8 million were interest-bearing with floating interest rates and bank loans of approximately HK$379 million were charged at rates of 5.31–7.97% per annum.

The Group conducted its continuing operational business transactions mainly in Renminbi, US dollars and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes.

On 18 June 2010, the Company and Kingsway Financial Services Group Limited ("Kingsway"), entered into a placing agreement pursuant to which Kingsway has agreed, on a best efforts basis to procure, as placing agent of the Company, places for the 2,673,000,000 placing shares at HK$0.195 per placing share. The placing agreement was lapsed on 18 August 2010. The Group will consider other financing plans or alternative as and when appropriate.

Gearing Ratio

The gearing ratio of the Group, measured as net debt, which represents total debt excluding tax payable, deferred tax liabilities and convertible notes, less cash and cash equivalents to the capital, which represents convertible notes and equity attributable to owners of the Company, was 0.77 as at 30 June 2010, as compared to 0.62 as at 31 December 2009.

Significant Investments, Material Acquisitions and Disposals

Proposed Acquisition of Triumph Fund A1 Limited

On 26 April 2010, the Company and All Aces Investments Limited (the "Vendor"), an independent third party, entered into a memorandum of understanding ("MOU") in respect of a proposed acquisition of two coal mines situated in Shanxi Province.

Further to the MOU, on 9 June 2010, Jetway Group Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, as the purchaser, and the Vendor entered into a framework agreement (the "Framework Agreement") in respect of the proposed acquisition of the entire issued share capital of Triumph Fund A1 Limited (the "Target Company") which will be beneficially interested in not more than approximately 93% of Coal Mine A and not more than approximately 98% of Coal Mine B, respectively, at completion of the subject acquisition.

Under the Framework Agreement, subject to the entering into of the formal acquisition agreement and the terms and conditions thereunder, (i) the Purchaser proposes to acquire the shares (representing 60% of the issued share capital of the Target Company) from the Vendor for a consideration of HK$3,600,000,000; and (ii) the Vendor has agreed to grant a call option ("Call Option") to the Purchaser pursuant to which the Purchaser will be entitled to acquire the Call Option shares (representing 40% of the issued share capital of the Target Company) from the Vendor for a consideration of HK$2,400,000,000, within nine months from the date of completion.

Pursuant to the Framework Agreement, the Vendor has provided a profit guarantee of the Target Company on the audited net profit after tax of HK$1,700,000,000 (subject to adjustments) under PRC GAAP during the two financial years commencing from 1 January 2011 to 31 December 2012 to the Purchaser.

The consideration is expected to be satisfied in cash payment and allotment and issue of shares and/or convertible bonds by the Company. Details of the proposed acquisition were set out in the announcements of the Company dated 26 April 2010 and 9 June 2010.

Disposal of Anchorage Trading Limited

On 17 June 2010, the Company entered into an agreement with Allied Concept Investments Limited ("Allied Concept"), an independent third party, whereby the Company has conditionally agreed to sell and Allied Concept has agreed to purchase the entire issued share capital of Anchorage Trading Limited for the consideration of HK$1 million. Details of the transaction were set out in the announcement and circular of the Company dated 17 June 2010 and 23 July 2010 respectively. The transaction was approved by the shareholders on 10 August 2010.

Save as disclosed above, there was no other material change on the investment held and also no other material acquisition or disposal of any subsidiary of the Group during the period.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 30 June 2010, the capital commitments of the Group were approximately HK$389 million. The capital commitments were mainly used to purchase machineries for the operation of coal mines.

As at 30 June 2010, the bank loans of approximately HK$861.4 million were secured by the Group's mining rights and equity interests in Eerduosi Hengtai Coal Co., Ltd ("Hengtai"), an indirectly non-wholly owned subsidiary of the Company, and guarantees given by a former shareholder of Triumph Fund A Limited and a director of Hengtai.

As at 30 June 2010, bank balances of approximately HK$34.8 million were pledged for bills issued by the Group and plants and machineries of approximately HK$115.4 million were pledged for a loan from a third party.

Save as disclosed above, the Group had no other pledge of assets as at 30 June 2010.

As at 30 June 2010, there was no material contingent liability of the Group.

Human Resources and Share Option Scheme

As at 30 June 2010, the Group had 305 full-time employees. The total staff cost for the six months ended 30 June 2010 was approximately HK$54.9 million. The Group's remuneration policy is primarily based on the individual performance and experience of employees, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 30 June 2010, the total outstanding share options amounted to 332,320,000 shares. 320,000,000 share options were granted and no share option was exercised during the period.

Directors' Interests in Shares and Underlying Shares

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at 30 June 2010, the following Directors or chief executive of the Company had or were deemed to have an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) 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 under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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 contained in the Listing Rules:

Name of Director	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Mr. Wang Da Yong *(note 1)*	Through controlled corporation	1,800,000,000	—	1,800,000,000	11.34%
Mr. Tian Wenwei *(note 2)*	Beneficial owner	—	75,000,000	75,000,000	0.47%
Mr. Wang Tongtian *(note 2)*	Beneficial owner	—	20,000,000	20,000,000	0.13%
Mr. Li Yi *(note 2)*	Beneficial owner	—	20,000,000	20,000,000	0.13%

Notes:

1. These shares of the Company are held by China Coal and Coke Investment Holding Company Limited which is wholly owned by Sino Bridge Investments Limited, a company wholly beneficially owned by Mr. Wang Da Yong ("Mr. Wang").

2. Share options were granted to Mr. Tian Wenwei, Mr. Wang Tongtian and Mr. Li Yi on 12 May 2010 under the share option scheme of the Company dated 28 May 2002 which are exercisable at the subscription price of HK$0.248 per share (subject to adjustments). The first 50% of the share options granted to each of them shall be exercisable for a period of 2 years commencing on 12 May 2011; and the remaining 50% of the share options granted to each of them shall be exercisable for a period of 1 year commencing on 12 May 2012. The respective number of underlying shares which they have interest in represent the number of shares which would be allotted and issued to them upon the exercise in full of the options granted.

Directors' Interests in Shares and Underlying Shares (continued)

(a) Directors' interests and short positions in the securities of the Company and its associated corporations (continued)

Save as disclosed above, as at 30 June 2010, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) 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 under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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 contained in the Listing Rules.

(b) Directors' Rights to Acquire Shares

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. On 12 May 2010, 115,000,000 share options in aggregate were issued to three directors of the Company, further details of which are set out in part (a) above.

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 director 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

(a) Interest in shares of the Company

As at 30 June 2010, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Capacity	Interests in shares (other than convertible by convertible notes)	Interest in underlying shares convertible by convertible notes	Total interests in shares/underlying shares	Approximate percentage of the Company's issued share capital
Zhao Ming *(note 1)*	Beneficial owner	600,000,000	16,220,000,000	16,820,000,000	105.99%
Sino Bridge Investments Limited *(note 2)*	Through controlled corporation	1,800,000,000	—	1,800,000,000	11.34%
China Coal and Coke Investment Holding Company Limited *(note 2)*	Beneficial owner	1,800,000,000	—	1,800,000,000	11.34%
Central Huijin Investment Limited *(note 3)*	Through controlled corporation	1,688,000,000	—	1,688,000,000	10.64%
China Construction Bank Corporation *(note 3)*	Through controlled corporation	1,688,000,000	—	1,688,000,000	10.64%
CCB International Group Holdings Limited *(note 3)*	Through controlled corporation	1,688,000,000	—	1,688,000,000	10.64%
CCB Financial Holdings Limited *(note 3)*	Through controlled corporation	1,688,000,000	—	1,688,000,000	10.64%
CCB International (Holdings) Limited *(note 3)*	Through controlled corporation	1,688,000,000	—	1,688,000,000	10.64%
CCB International Assets Management (Cayman) Limited *(note 3)*	Through controlled corporation	1,688,000,000	—	1,688,000,000	10.64%
CCB International Asset Management Limited *(note 3)*	Beneficial owner	1,688,000,000	—	1,688,000,000	10.64%

Substantial Shareholders (continued)

(a) Interest in shares of the Company (continued)

Notes:

1. Zhao Ming holds 600,000,000 shares of the Company and convertible notes of the Company which entitle the holder thereof to convert for 16,220,000,000 shares at the current conversion price of HK$0.0625 per Share (subject to adjustments).

2. China Coal and Coke Investment Holding Company Limited is wholly-owned by Sino Bridge Investments Limited, a company wholly beneficially owned by Mr. Wang.

3. CCB International Asset Management Limited is the beneficial owner of 1,688,000,000 shares. Central Huijin Investment Limited is deemed to be interested in the 1,688,000,000 shares held by CCB International Asset Management Limited by virtue of its 57.09% interest in China Construction Bank Corporation which owns 100% interest in CCB International Group Holdings Limited. CCB International Group Holdings Limited holds 100% interest in CCB Financial Holdings Limited which in turn owns 100% interest in CCB International (Holdings) Limited. CCB International (Holdings) Limited holds 100% interest in CCB International Assets Management (Cayman) Limited which in turn owns 100% interest in CCB International Asset Management Limited.

Save as disclosed above, as at 30 June 2010, the Directors are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the shares or underlying shares, or has any rights to subscribe for shares in respect of such capital.

(b) Substantial shareholders of other members of the Group

As at 30 June 2010, so far as it is known to the directors of the Company, there no parties, other than a director of the Company, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in general meetings of any other member of the Group.

Purchase, Redemption or Sale of Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2010.

Code on Corporate Governance Practices

In the opinion of the directors, save as the deviation of Code A.2.1 and A.4.1 of the Code on Corporate Governance Practice (the "Code"), the Company has complied with the Code as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2010.

Under provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang Da Yong, the chief executive officer of the company, was appointed as the chairman of the Company on 26 February 2010. The Board considers that the structure will not impair the balance of power and authority between the Board and the management of the Group. The balance of power and authority is ensured by the operations of the board committees which comprises experienced and high calibre individuals and meets to discuss the issues. The Board also considers that the structure enables effectiveness and efficiency in operating of the Group's business and is beneficial to the business prospects of the Group.

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Save as Mr. Chiu Sui Keung, who was appointed as independent non-executive director of the Company on 18 January 2010 for a term of one year, all of the existing non-executive directors and independent non-executive directors of the Company are not appointed on specific terms, however, all of them are subject to retirement by rotation at the annual general meeting of the Company.

According to the Memorandum and Articles of Association of the Company, one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions and all its directors have complied with required standard set out in the Model Code throughout the accounting period covered by the interim report.

Directors

As at the date hereof, the Board of the Company comprises Mr. Wang Da Yong, Mr. Tian Wenwei and Mr. Wang Tongtian as Executive Directors, Mr. Li Yi and Mr. Su Bin as Non-Executive Directors and Mr. Cao Kuangyu, Mr. Chiu Sui Keung and Mr. Jacobsen William Keith as Independent Non-Executive Directors.

Review by Audit Committee

The 2010 interim report is unaudited, but has been reviewed by the Audit Committee which comprises of three Independent Non-Executive Directors of the Company. The Audit Committee was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

On behalf of the Board
Wang Da Yong
Chairman

Hong Kong, 19 August 2010