合動能源

Dynamic Energy Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 578

2010

Interim Report

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 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

During the six months ended 30 June 2010, the Group has achieved a positive result compared to a loss in same period of last year. The results of the Group achieved during the current period were being affected by several major factors including the occasional suspension of the Group's coal mines, the increase in the proportion of coal trading and the non-occurrence of impact from the fair value changes of the compound derivative component of the convertible bonds of the Company.

With the continue occasion suspension of coal mines, the coal production of the Group during the six months ended 30 June 2010 (i.e. approximately 0.65 million tons ("mt")) was less than the same period of last year (i.e. approximately 0.73 mt). In order to meet the demand from customers hence to secure the turnover of the Group, the Group had to purchase more coal from suppliers for selling to customers. As the average cost for coal purchase was higher than the coal production cost incurred by the Group itself, the overall gross profit and gross profit margin of the Group was dropped. Therefore, the gross profit margin of the Group during the six months ended 30 June 2010 had been dropped from 66.9% to 39.1% although the turnover of the Group increased during the period.

Although the operating profit of the Group was dropped due to the decrease in gross profit and gross profit margin as stated with the reasons above, the Group had achieved net profit during the six months ended 30 June 2010 compared to a loss generated by the Group in the same period of last year. As at 31 December 2009, all the outstanding convertible bonds were classified as current liabilities in the consolidated statement of financial position. Therefore, the Company had no need to account for the fair value changes of the compound derivative component of the outstanding convertible bonds since 1 January 2010. For the six months ended 30 June 2009, the loss in change in fair value of the compound derivative component of the convertible bonds amounted to approximately HK$292.7 million which was the major reason to cause the net loss of the Group during that period.

Financial Review

Revenue

The Group's revenue for the period ended 30 June 2010 amounted to approximately HK$449.0 million, which was increased by approximately 41.0% from approximately HK$318.5 million for the same period of last year. The increase in revenue was mainly attributable to the increase in sales volume of coal for the six months ended 30 June 2010 compared with the same period of last year resulting from the stronger demand of coal from customers in the current period. In order to meet the stronger demand from customers under the circumstances of limited coal production volume due to the occasional suspension of the Group's coal mines, the Group had to purchase more raw coal from local suppliers hence the sales volume and revenue could be secured and enhanced. For the six months ended 30 June 2010, the total sales volume was approximately 0.87 mt, representing a 19.2% increase from approximately 0.73 mt for the same period of last year. In addition to the increase in sales volume of coal, the average selling price (net of value added tax) of coal was approximately RMB448.8 per ton for the six months ended 30 June 2010, representing an increase of 16.8 % as compared with approximately RMB384.3 per ton for the same period of last year. The increase in selling price was mainly due to the increase in demand of coal from customers because of the recovery from the world's financial tsunami and tight supply of coal in Henan Province resulting from suspension of small and medium size coal mines. Therefore, the overall turnover of the Group for the period ended 30 June 2010 has increased by approximately 41.0%.

Gross Profit

Although the sales volume of coal and the revenue in the current period increased as explained above, the gross profit reported was dropped by 17.7% from approximately HK$213.0 million for the period ended 30 June 2009 to approximately HK$175.4 million for the current period. The gross profit margin of the Group's coal business also dropped from approximately 66.9% for the six months ended 30 June 2009 to approximately 39.1% for the current period. The reduction in the gross profit margin was mainly due to the increase in the cost of sales resulting from the increase in purchase of coal from suppliers to meet the demand from customers. As the market coal price was increasing during the current period, therefore the cost to purchase of coal from the market was increased. The purchase cost of coal from local suppliers was undoubtedly higher than the production cost incurred by the Group itself, therefore the overall gross profit margin obtained by the Group was dropped.

Another reason for the drop in the gross profit and gross profit margin of the Group for the current period was the increase in the cost of sales mainly resulting from the increase in production cost, such as removal and reallocation expenses and insurance provisions for employees. With the several fatal accidents occurred in some local coal mines within the province, the Group had prudently incurred more employee-related benefits during the period to protect the coverage of its employees. Therefore, the cost of sales during the current period increased which led the gross profit and gross profit margin of the Group to drop accordingly.

Operating Profit

The operating profit of the Group for the six months ended 30 June 2010 was approximately HK$112.5 million which was less than the operating profit for the same period of last year by 28.3%, which amounted to approximately HK$157.0 million for the six months ended 30 June 2009. The reduction of the operating profit in the current period comparing with the same period of last year was mainly due to the increase in cost of sales hence reduction in gross profit as explained above, notwithstanding the increase in revenue.

Net Profit

The net profit attributable to the owners of the Company for the period ended 30 June 2010 was approximately HK$52.2 million and it was a loss amounted to approximately HK$234.6 million for the same period of last year. The Company suffered a loss in the same period of last year was mainly due to the substantial loss in the change in fair value of the compound derivative component of the convertible bonds. During the current period, the Company had no need to account for the changes in the fair value of the compound derivative component of the convertible bonds as explained in the previous paragraph of "Overview" above. Therefore, the Company has achieved a positive result for the current period.

PROSPECT

As announced by the Company on 4 August 2010, all the coal mines of the Group have been suspended as requested by the relevant local government authorities due to the fatal accident happened in a coal mine in Henan Province. As of the date of this interim financial report, all the coal mines are still in the stage of suspension. This is the fourth time since year 2008 that the operations of the Group's coal mines were suspended due to the accidents occurred by other coal mines in Henan Province, and the Board is highly in concern for this situation. The Board expects that the results of the Group for the year of 2010 may be affected if all the coal mines cannot be resumed in the second half of 2010.

Besides the frequent unexpected interruption of operations, the Board is also in concern about the uncertainty and the influence to be caused by the upcoming change of and implementation of new government policies regarding the small and medium size coal mines, especially for those which are not owned by state-owned enterprises, such as the Group's coal mines in PRC and particularly in Henan Province. The relevant local government authorities in Henan Province have issued notifications to direct and encourage the acquisition and consolidation of small and medium size coal mines within the province. Large-scale coal mining companies are acting as the core consolidation units to acquire and consolidate small and medium size coal mines. This is the rationale behind for the Group to form a joint venture (the "JV") in November 2009 in Henan Province with one of the six state owned coal mine consolidators, dedicated by Henan provincial government, to acquire and consolidate other coal mines. In March 2010, the Company signed a framework agreement with the partner of the JV and The People's Government of Shilong District Pindingshan City in relation to the possible acquisition and consolidation of 22 coal mines in Shilong District Pindingshan City, Henan Province. The possible acquisition is in line with the business strategy of the Group. On 22 June 2010 and 22 July 2010, the Company has announced that agreements have been made to acquire two of the 22 coal mines.

On 12 July 2010, the Group established a wholly owned subsidiary, Henan Zhongyuan JiuAn Foundation and Investment Company Limited ("JiuAn"), in Zhengzhou Economic and Technical Development District, Henan Province, the PRC. The registered capital of JiuAn is RMB650 million. The major purpose of establishing JiuAn is to facilitate the Group's future investment and acquisition activities in coal business. JiuAn is registered as a Wholly Foreign Owned Enterprise investment holding company in PRC, which will facilitate and enhance the Group's investment and acquisition exercises in the future.

On 23 August 2010, the Company announced that Kaifeng Shi Bianlong Shangmao Company Limited ("Bianlong"), an indirectly wholly owned subsidiary of the Company, has entered into a sales contract with a customer pursuant to which Bianlong will supply 15,000 tons of coal to the customer during the contract period from 16 August 2010 to 16 September 2010.

Since the resignation of the Group's ex-chairman in June 2010, the Board is in concern about the effectiveness of the internal control and corporate governance of Henan Jinfeng Coal Industrial Group Company Limited ("Jinfeng"), the Group's core subsidiary which holds all the five coal mines. The ex-chairman is a shareholder who holds 10% of Jinfeng and also the existing chairman of Jinfeng. He resigned as chairman and executive director of the Company in June 2010 because he had disagreed with the Board over the development strategy of the Group. To safeguard the interest of the shareholders as a whole and advised by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has engaged Grant Thornton Specialist Services Limited to perform a review on the internal control system and corporate governance of the Group, including the subsidiaries in the PRC. The Board may take cautious, appropriate and necessary measures in this regard if there are any findings and suggestions after the review performed by Grant Thornton Specialist Services Limited.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2010, the net asset value of the Group was approximately HK$1,283.0 million (as at 31 December 2009: approximately HK$1,107.8 million) and the total cash and bank balance (included pledged bank deposit) was approximately HK$445.6 million (as at 31 December 2009: approximately HK$392.0 million). As at 30 June 2010, the Group had net current assets of approximately HK$202.1 million (as at 31 December 2009: net current liabilities of approximately HK$69.0 million) and its current ratio increased from 0.9 to 1.2 times compared with last year's.

As at 30 June 2010, bank deposits amounted to approximately HK$345.9 million (as at 31 December 2009: approximately HK$233.0 million) were pledged for the Group's bills payable. Cash and cash equivalents which were not pledged amounted to approximately HK$99.7 million (as at 31 December 2009: approximately HK$159.1 million). Included in cash and cash equivalents, amounted to approximately HK$51.8 million (as at 31 December 2009: approximately HK$145.5 million) was retained in the Company's PRC subsidiaries for operation.

As at 30 June 2010, the Group's total bank loans amounted to approximately HK$221.4 million (as at 31 December 2009: approximately HK$159.1 million). Bank loans of approximately HK$152.2 million (as at 31 December 2009: approximately HK$136.3 million) were denominated in Renminbi ("RMB") and were secured by certain accounts receivable, bear interest at fixed rates ranging from 4.37% to 5.83% per annum (as at 31 December 2009: at fixed rates ranging from 4.37% to 5.83% per annum); bank loans of approximately HK$69.2 million (as at 31 December 2009: approximately HK$22.7 million) were denominated in RMB and were unsecured, bear interest at fixed rates ranging from 5.31% to 11.52% per annum (as at 31 December 2009: a fixed rate of 5.31% per annum) and of approximately HK$103.8 million and HK$23.1 million were guaranteed by independent third parties and co-guaranteed by an independent third party and a non-controlling shareholder respectively (as at 31 December 2009: approximately HK$79.5 million was guaranteed by an independent third party).

As at 30 June 2010, a banking facility of RMB50 million (equivalent to approximately HK$57.7 million) (as at 31 December 2009: Nil) was granted by a bank to the Group. The facility was secured by one of the Group's mining rights and guaranteed by an independent third party. As at 30 June 2010, the facility was not utilised (as at 31 December 2009: Nil).

As at 30 June 2010, the Group's bills payable amounted to approximately HK$415.1 million (as at 31 December 2009: approximately HK$284.0 million) were secured by the pledge of the Group's fixed deposits and of approximately HK$69.2 million were guaranteed by an independent third party and approximately HK$69.2 million were co-guaranteed by an independent third party and a non-controlling shareholder (as at 31 December 2009: approximately HK$85.2 million were guaranteed by an independent third party).

Regarding to the convertible bonds of the Group, the Group had two (as at 31 December 2009: two) outstanding CBs as at 30 June 2010. The liability components of all the outstanding CBs stated in the consolidated statement of financial position were amounted to approximately HK$298.0 million (as at 31 December 2009: approximately HK$336.8 million). On 4 June 2010, the 2% coupon convertible bonds with initial principal amount of US$25 million issued on 10 December 2007 ("CB3") had been fully settled.

On 31 May 2010, the Group issued the zero coupon convertible bonds ("CB4") with principal amount of HK$200 million for the purpose of acquisition of coal mines and settlement of CB3. CB4 will be repayable after 3 years from the date of issuance or convertible into shares of the Company at the conversion price of HK$0.1 per share. During the six months ended 30 June 2010, CB4 with principal amount of HK$80 million was converted into 800 million shares by its holder. Therefore, the outstanding principal amount of CB4 as at the date of this interim financial report was HK$120 million.

The Group's gearing ratio, as a ratio of bank loans plus liability components of the CBs and divided by net assets, was 40.5% (as at 31 December 2009: 44.8%).

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 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group has a total of approximately 3,800 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover and a Mandatory Provident Fund. A share option scheme was adopted by the Group on 20 October 2004 to enable the directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group. No share option has been granted nor allotted to directors or employees during the six months ended 30 June 2010. Details of the share options are set out in note 19 to the interim financial report.

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

During the six months ended 30 June 2010, 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 2010 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 2010, 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 2010.

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

As at 30 June 2010, 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 Hong Kai ("Mr. Bao")	Interests in controlled corporation	460,735,713 *(Note 1)*	423,913,043 *(Note 1)*	30.32%
	Personal interest	6,750,000	–	0.23%
Mr. Wu Jiahong ("Mr. Wu")	Personal interest	–	14,688,000 *(Note 2)*	0.50%
Mr. Xu Lidi ("Mr. Xu")	Personal interest	10,125,000	6,081,750 *(Note 2)*	0.56%
Mr. Li Chun On ("Mr. Li")	Personal interest	381,000	1,275,000 *(Note 2)*	0.06%

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 was the executive director of the Company and he resigned as chairman and executive director of the Company in June 2010. 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. Dragon Rich also holds the zero coupon convertible bonds with initial principal face value of HK$230,000,000 ("CB2"). As at 30 June 2010, the outstanding principal face value of CB2 held by Dragon Rich is HK$195,000,000. Upon full conversion of CB2 thereof at the adjusted conversion price of HK$0.46, a total of 423,913,043 shares will be issued to Dragon Rich.

(2) Mr. Xu is interested as a grantee of share options to subscribe for 6,081,750 shares of the Company, Mr. Wu is interested as a grantee of share options to subscribe for 14,688,000 shares of the Company and Mr. Li is interested as a grantee of share options to subscribe for 1,275,000 shares of the Company under the share option scheme as disclosed in note 19 to the interim financial report.

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 2010.

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 2010, 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
Victory Investment China Group Limited(1)	Beneficial owner	800,000,000	27.41%
Wang Ruiyun(1)	Interests in controlled corporation	800,000,000	27.41%
Dragon Rich(2)	Beneficial owner	460,735,713	15.79%
Hopeview Consultants Limited(3)	Beneficial owner	202,500,000	6.94%
Liu Changsong(3)	Interests in controlled corporation	202,500,000	6.94%

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

Name of Shareholder	Capacity	Number of underlying shares	Approximate percentage of shareholding
Dragon Rich[(2)]	Beneficial owner	423,913,043	14.53%

Notes:

(1) Victory Investment China Group Limited is beneficially and wholly owned by Mr. Wang Ruiyun. He is independent and not related to the Board or management of the Company.

(2) 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.

(3) 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.

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 22 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 2010 have been reviewed by Grant Thornton, the Group's auditors. The auditors' independent review report was set out on page 11 of this interim financial report.

Wu Jiahong
Executive Director

Hong Kong, 27 August 2010

INDEPENDENT REVIEW REPORT

Grant Thornton
均富

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 12 to 37, 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 2010 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.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

27 August 2010

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**449,032**	318,549
Cost of sales		**(273,626)**	(105,580)
Gross profit		**175,406**	212,969
Other income	*4*	**5,176**	2,682
Selling expenses		**(6,106)**	(4,761)
Administrative expenses		**(59,850)**	(50,039)
Other operating expenses		**(2,127)**	(3,841)
Operating profit		**112,499**	157,010
Change in fair value of compound derivative financial instruments	*16*	**–**	(292,721)
Finance costs	*5*	**(15,688)**	(43,612)
Share of loss of jointly controlled entity	*11*	**(292)**	–
Profit/(Loss) before income tax	*6*	**96,519**	(179,323)
Income tax expense	*7*	**(37,439)**	(43,458)
Profit/(Loss) for the period		**59,080**	(222,781)
Profit/(Loss) for the period attributable to:			
Owners of the Company		**52,174**	(234,615)
Non-controlling interest		**6,906**	11,834
		59,080	(222,781)
Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company during the period (2009: As restated)	*9*		
– Basic *(HK cents)*		**2.346**	(14.086)
– Diluted *(HK cents)*		**1.819**	N/A

The notes on pages 19 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit/(Loss) for the period	**59,080**	(222,781)
Other comprehensive income/(loss) for the period		
Exchange gain/(loss) on translation of financial statements of foreign operations		
– subsidiaries	**17,372**	(1,393)
– jointly controlled entity	**1,350**	–
Total comprehensive income/(loss) for the period	**77,802**	(224,174)
Total comprehensive income/(loss) attributable to:		
Owners of the Company	**69,251**	(235,876)
Non-controlling interest	**8,551**	11,702
	77,802	(224,174)

The notes on pages 19 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	**Unaudited 30 June 2010 *HK$'000***	Audited 31 December 2009 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*10*	**258,695**	250,844
Prepaid lease payments		**841**	970
Goodwill		**224,207**	224,207
Mining rights		**623,810**	623,067
Other intangible assets		**15**	38
Interest in jointly controlled entity	*11*	**92,016**	90,958
		1,199,584	1,190,084
Current assets			
Inventories	*12*	**17,546**	33,707
Accounts receivable	*13*	**415,913**	257,970
Prepayments, deposits and other receivables		**295,390**	140,504
Tax recoverable		**1,533**	–
Pledged bank deposits		**345,900**	232,967
Cash and cash equivalents		**99,742**	159,067
		1,176,024	824,215
Current liabilities			
Accounts and bills payables	*14*	**433,755**	303,985
Other payables and accruals		**108,001**	66,134
Provision for reclamation obligations		**15,786**	14,106
Provision for tax		**–**	13,107
Bank loans	*15*	**221,376**	159,058
Convertible bonds	*16*	**195,000**	336,839
		973,918	893,229
Net current assets/(liabilities)		**202,106**	(69,014)
Total assets less current liabilities		**1,401,690**	1,121,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

As at 30 June 2010

	Notes	**Unaudited 30 June 2010 *HK$'000***	Audited 31 December 2009 *HK$'000*
Non-current liabilities			
Convertible bonds	*16*	**103,045**	–
Deferred tax liabilities	*17*	**15,607**	13,289
		118,652	13,289
Net assets		**1,283,038**	1,107,781
EQUITY			
Share capital	*18*	**291,813**	211,813
Reserves		**887,885**	801,179
Equity attributable to Company's owners		**1,179,698**	1,012,992
Non-controlling interest		**103,340**	94,789
Total equity		**1,283,038**	1,107,781

The notes on pages 19 to 37 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2010

	Attributable to owners of the Company												Non-controlling 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	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*
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
Share options forfeited	–	–	–	(71)	–	–	–	–	–	71	–	–	–	–
Bonus issue	59,139	–	–	–	–	–	(59,139)	–	–	–	–	–	–	–
Issue of shares on conversion of convertible bonds	5,714	17,771	(4,582)	–	–	–	–	–	–	–	–	18,903	–	18,903
Exercise of share options	1,440	19,775	–	(10,220)	–	–	–	–	–	–	–	10,995	–	10,995
Transactions with owners	66,293	37,546	(4,582)	(10,291)	–	–	(59,139)	–	–	71	–	29,898	–	29,898
Transfer to other reserve	–	–	–	–	–	8,291	–	–	–	(8,291)	–	–	–	–
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														
– subsidiaries	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(CONTINUED)

For the six months ended 30 June 2010

	Attributable to owners of the Company												Non-controlling 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	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*
At 1 January 2010	**211,813**	**225,742**	**–**	**10,341**	**50**	**55,473**	**8,282**	**47,439**	**27,442**	**367,301**	**59,109**	**1,012,992**	**94,789**	**1,107,781**
Share options forfeited	–	–	–	(1,881)	–	–	–	–	–	1,881	–	–	–	–
Issue of convertible bonds	–	–	28,993	–	–	–	–	–	–	–	–	28,993	–	28,993
Issue of shares on conversion of convertible bonds	80,000	59	(11,597)	–	–	–	–	–	–	–	–	68,462	–	68,462
Transactions with owners	**80,000**	**59**	**17,396**	**(1,881)**	**–**	**–**	**–**	**–**	**–**	**1,881**	**–**	**97,455**	**–**	**97,455**
Transfer to other reserve	**–**	**–**	**–**	**–**	**–**	**4,706**	**–**	**–**	**–**	**(4,706)**	**–**	**–**	**–**	**–**
Profit for the period	–	–	–	–	–	–	–	–	–	52,174	–	52,174	6,906	59,080
Other comprehensive income for the period														
– Exchange gain on translation of financial statements of foreign operations														
– subsidiaries	–	–	–	–	–	–	–	15,727	–	–	–	15,727	1,645	17,372
– jointly controlled entity	–	–	–	–	–	–	–	1,350	–	–	–	1,350	–	1,350
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17,077**	**–**	**52,174**	**–**	**69,251**	**8,551**	**77,802**
At 30 June 2010	**291,813**	**225,801**	**17,396**	**8,460**	**50**	**60,179**	**8,282**	**64,516**	**27,442**	**416,650**	**59,109**	**1,179,698**	**103,340**	**1,283,038**

The notes on pages 19 to 37 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Net cash (used in)/from operating activities	**(50,048)**	17,288
Net cash used in investing activities	**(126,695)**	(73,261)
Net cash from financing activities	**114,640**	28,215
Net decrease in cash and cash equivalents	**(62,103)**	(27,758)
Cash and cash equivalents at 1 January	**159,067**	80,131
Effect of foreign exchange rate changes on cash and cash equivalents	**2,778**	(398)
Cash and cash equivalents at 30 June	**99,742**	51,975

The notes on pages 19 to 37 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

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 2009, 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 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 2010.

HKFRS 3 (Revised 2008)	Business combination
HKAS 27 (Revised 2008)	Consolidated and separate financial statements
HKFRSs (Amendments)	Annual improvements to HKFRSs 2009

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed interim consolidated financial statements.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

2. ADOPTION OF NEW OR AMENDED HKFRSs (*CONTINUED*)

2.1 ADOPTION OF HKFRS 3 BUSINESS COMBINATION (REVISED 2008)

The revised HKFRS 3 *Business Combination* ("HKFRS 3R") introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in HKFRS 3R are as follows:

- Acquisition-related costs of the combination are recorded as an expense in profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition.

- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.

- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. For the six months ended 30 June 2010, the Group did not have any business combination and the adoption of HKFRS 3R did not have an impact in the interim financial statements.

2.2 ADOPTION OF HKAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (REVISED 2008)

The adoption of HKFRS 3R required that the revised HKAS 27 *Consolidated and Separate Financial Statements* ("HKAS 27R") is adopted at the same time. HKAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called "minority") interests and the loss of control of a subsidiary. Similar to HKFRS 3R, the adoption of HKAS 27R is applied prospectively. The Group did not have transactions with non-controlling interests in the current period and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of HKAS 27R did not have an impact in the interim financial statements.

2.3 ADOPTION OF IMPROVEMENTS TO HKFRSs 2009

The *Improvements to HKFRSs 2009* made several minor amendments to HKFRSs. The only amendment relevant to the Group relates to HKAS 17 *Leases*. The amendment requires that leases of land are classified as finance or operating applying the general principles of HKAS 17. Prior to this amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

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 executive directors in order to allocate resources and assess performance of the segment. For the periods presented, executive directors have determined that the Group has only one operating segment as the Group is only engaged in the business of production and sale of coal which is the basis to allocate resources and assess performance.

The Group's revenue from external customers are derived from the People's Republic of China (the "PRC") and its non-current assets (other than deferred tax assets) located outside the PRC are less than 5%. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities. The Group has the majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 *Operating Segments*.

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

During the six months ended 30 June 2010, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss, which equals the Group's profit before income tax measured under HKFRSs.

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	
	2010	2009
	HK$'000	*HK$'000*
Revenue/Turnover		
Sale of coal	**449,032**	318,549
Other income		
Interest income	**3,373**	1,744
Sale of consumable tools	**655**	462
Others	**1,148**	476
	5,176	2,682

NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2010

5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Interest charge on bank loans – wholly repayable within five years	**6,053**	3,192
Effective interest expense on convertible bonds repayable within five years	**1,710**	40,420
Default interest expense on convertible bonds repayable within five years	**1,809**	–
Interest expenses on financial liabilities stated at amortised cost	**9,572**	43,612
Bank charges on bills receivable discounted without recourse	**6,116**	–
	15,688	43,612

6. PROFIT/(LOSS) BEFORE INCOME TAX

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

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Cost of inventories sold	**266,550**	98,471
Depreciation	**13,460**	9,934
Operating lease charges on land and buildings	**810**	356
Amortisation of prepaid lease payments	**143**	142
Amortisation of mining rights	**8,447**	6,316
Amortisation of intangible assets	**23**	54
Employee benefit expenses (including directors' remuneration and retirement benefit scheme contributions)	**112,082**	50,278
Loss on disposals of property, plant and equipment	**144**	–

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

7. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Current tax		
– PRC income tax	**35,335**	43,458
Deferred tax *(note 17)*	**2,104**	–
	37,439	43,458

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 2009: Nil).

Corporate income tax arising in the PRC is calculated at the statutory income tax rate of 25% (Six months ended 30 June 2009: 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 2010 (Six months ended 30 June 2009: Nil).

9. EARNINGS/(LOSS) PER SHARE

On 30 April 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"). In addition, on 1 December 2009, the Company also raised funds by way of open offer (the "Open Offer") of offer shares at a subscription price of HK$0.2 per share on the basis of one offer share for every two existing shares of the Company. The comparative figures of basic and diluted earnings/(loss) per share have been restated for the bonus element of the Open Offer.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

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

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

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit/(Loss)		
Profit/(Loss) for the period attributable to the owners of the Company for the purpose of basic earnings/(loss) per share	**52,174**	(234,615)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**500**	40,420
Change in fair value of compound derivative financial instruments	**–**	292,721
Profit for the purpose of diluted earnings per share attributable to the owners of the Company	**52,674**	98,526

	Unaudited Six months ended 30 June	
	2010	2009
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**2,224,208**	1,665,645
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**4,648**	–
Convertible bonds	**666,135**	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**2,894,991**	1,665,645

Earnings per share attributable to the owners of the Company for the six months ended 30 June 2010 is based on the earnings attributable to the owners of the Company of approximately HK$52.2 million (Six months ended 30 June 2009: loss of approximately HK$234.6 million) and the weighted average of 2,224,208,000 ordinary shares (Six months ended 30 June 2009: 1,665,645,000, as restated) outstanding during the six months ended 30 June 2010.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

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

Diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2010 is based on the profit attributable to the owners of the Company of approximately HK$52.7 million and the weighted average of 2,894,991,000 ordinary shares outstanding during the six months ended 30 June 2010.

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.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010,

(a) the Group incurred capital expenditure of approximately HK$3.1 million (Six months ended 30 June 2009: approximately HK$24.5 million) in buildings, approximately HK$0.8 million (Six months ended 30 June 2009: approximately HK$1.3 million) in plant and machinery, approximately HK$2.6 million (Six months ended 30 June 2009: approximately HK$9.5 million) in mining related machinery and equipment, approximately HK$0.1 million (Six months ended 30 June 2009: approximately HK$1.3 million) in furniture, fixtures, equipment and leasehold improvement, approximately HK$0.8 million (Six months ended 30 June 2009: approximately HK$2.8 million) in motor vehicles and approximately HK$13.3 million (Six months ended 30 June 2009: approximately HK$5.7 million) in construction in progress.

(b) The Group disposed of certain items of property, plant and equipment with carrying value amounted to approximately HK$3.2 million and recognised a loss of approximately HK$0.1 million in the consolidated income statement for the six months ended 30 June 2010. No property, plant and equipment of the Group were disposed of for the six months ended 30 June 2009.

(c) The Group reviews the estimated useful lives of property, plant and equipment at each reporting date. During the six months ended 30 June 2010, the directors determined that the useful lives of certain items of equipment should be shortened, due to developments in technology.

The financial effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is to increase the depreciation charge during the six months ended 30 June 2010 by approximately HK$1.7 million.

11. INTEREST IN JOINTLY CONTROLLED ENTITY

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Share of net assets	**92,016**	90,958

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

11. INTEREST IN JOINTLY CONTROLLED ENTITY *(CONTINUED)*

Particulars of the jointly controlled entity of the Group at 30 June 2010 were as follows:

Name of jointly controlled entity	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Group	Principal activities
Indirectly held				
Henan Yulong Energy Development Company Limited ("Henan Yulong")	PRC	RMB200,000,000	40%	Coal mine production safety and gas management

The following illustrates the summarised financial information of the Group's jointly controlled entity extracted from its management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group.

The Group's share of the jointly controlled entity assets, liabilities, income and expenses are as follows:

	Unaudited 30 June 2010 ***HK$'000***	Audited 31 December 2009 *HK$'000*
Non-current assets	**143**	132
Current assets	**91,966**	90,835
Current liabilities	**(93)**	(9)
	92,016	90,958

	Unaudited Six months ended 30 June	
	2010 ***HK$'000***	2009 *HK$'000*
Income	**–**	–
Expenses	**(292)**	–
Loss after income tax expenses attributable to the Group	**(292)**	–

The Group has not incurred any contingent liabilities or other commitments relating to its jointly controlled entity.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

12. INVENTORIES

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Coal	**1,474**	20,946
Spare parts and consumables	**16,072**	12,761
	17,546	33,707

13. ACCOUNTS RECEIVABLE

The Group's sales are billed to customers according to the terms of the relevant agreement normally credit periods ranging from 30 to 180 days are allowed. Based on the invoice dates, ageing analysis of the Group's accounts receivable at the reporting date is as follows:

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
0 – 90 days	**322,386**	240,136
91 – 180 days	**93,527**	17,834
	415,913	257,970

All the accounts receivable were not impaired.

14. ACCOUNTS AND BILLS PAYABLES

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Accounts payable	**18,675**	19,954
Bills payable	**415,080**	284,031
	433,755	303,985

NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2010

14. ACCOUNTS AND BILLS PAYABLES (CONTINUED)

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

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
0 – 90 days	**15,292**	17,201
91 – 180 days	**1,217**	696
Over 180 days	**2,166**	2,057
	18,675	19,954

15. BANK LOANS

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Bank loans repayable within one year and classified as current liabilities	**221,376**	159,058

At 30 June 2010, bank loans of approximately HK$152.2 million (31 December 2009: approximately HK$136.3 million) were denominated in Renminbi ("RMB") and were secured by certain accounts receivable, bear interest at fixed rates ranging from 4.37% to 5.83% per annum (31 December 2009: at fixed rates ranging from 4.37% to 5.83% per annum); bank loans of approximately HK$69.2 million (31 December 2009: approximately HK$22.7 million) were denominated in RMB and were unsecured, bear interest at fixed rates ranging from 5.31% to 11.52% per annum (31 December 2009: a fixed rate of 5.31% per annum) and of approximately HK$103.8 million and HK$23.1 million were guaranteed by independent third parties and co-guaranteed by an independent third party and a non-controlling shareholder respectively (31 December 2009: approximately HK$79.5 million was guaranteed by an independent third party).

As at 30 June 2010, a banking facility of RMB50 million (equivalent to approximately HK$57.7 million) (31 December 2009: Nil) was granted by a bank to the Group. The facility was secured by one of the Group's mining rights and guaranteed by an independent third party. As at 30 June 2010, the facility was not utilised (31 December 2009: Nil).

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

16. 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 bore interest at 1% per annum with maturity date of 3 years from the date of issuance and were repayable after 3 years from the date of issuance or convertible into shares of the Company at the conversion price of HK$0.35 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues) at any time after the second anniversary from the date of issuance. 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 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 settlement of the promissory notes issued by the Company. CB2 were issued with an initial conversion price of HK$1.1 per share and will mature on 16 November 2010. The conversion price is subject to adjustment for consolidation, sub-division or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. On 10 December 2009, the Company was in default of payment for other convertible bonds as shown below. According to subscription agreement of CB2, Dragon Rich had the right to demand immediate repayment when the Company defaulted in the repayment of any of its loan indebtedness. As at 30 June 2010, the holder of CB2 was Dragon Rich with remaining principal amount of HK$195 million (31 December 2009: HK$195 million). Up to the approval date of this interim financial report, no demand for repayment was received from Dragon Rich and the CB2 was remained unsettled. The conversion price was adjusted from HK$1.1 per share to HK$0.61 per share upon the approval of the Bonus Issue on 30 April 2009. The conversion price was further adjusted from HK$0.61 per share to HK$0.46 per share upon the Open Offer becoming unconditional on 1 December 2009.

On 10 December 2007, the Company issued a 2% coupon convertible bonds ("CB3") with principal amount of US$25 million (equivalent to approximately HK$194.5 million). CB3 were issued with an initial conversion price of HK$1.8 per share and would mature on 10 December 2010. The conversion price was subject to adjustment for consolidation, sub-division or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. Both the Company and the holders of CB3 had redemption options. On 10 December 2009, the holders of CB3 would have the right at such holders' options, to require the Company to redeem all or some only of the CB3. 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 conversion price was further adjusted from HK$0.88 per share to HK$0.67 per share upon the Open Offer becoming unconditional on 1 December 2009.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

16. CONVERTIBLE BONDS *(CONTINUED)*

CB3 with principal amount of US$9 million (equivalent to approximately HK$70.0 million) was converted by its holders during the second half of 2009. On 10 December 2009, the holders of the CB3 exercised their rights to require the Company to fully redeem the remaining CB3 with principal amount of US$16 million (equivalent to approximately HK$124.5 million) at a premium of 12.7% on the principal amount and accrued interest of approximately US$0.2 million (equivalent to approximately HK$1.2 million). The premium arising on redemption of CB3 was approximately US$2.0 million (equivalent to approximately HK$15.9 million). The Company was in default of payment and the related default interest of approximately US$0.03 million (equivalent to approximately HK$0.2 million) calculated at 3% per annum for the period from 10 December 2009 to 31 December 2009 was charged to finance costs. On 31 December 2009, an agreement was signed to transfer the remaining CB3 from the original bondholders to an independent third party, MCC International (Group) Company Limited.

On 4 June 2010, the total outstanding amount of CB3 being settled (including outstanding principal of US$16 million (equivalent to approximately HK$124.5 million), redemption premium of approximately US$2.0 million (equivalent to approximately HK$15.9 million), accrued interest of approximately US$0.3 million (equivalent to approximately HK$2.5 million) and the related default interest of approximately US$0.3 million (equivalent to approximately HK$2.0 million)) was approximately US$18.6 million (equivalent to approximately HK$144.9 million).

On 31 May 2010, the Company issued zero coupon bonds ("CB4") in the principal amount of HK$200 million for the purpose of settlement of CB3 and potential acquisitions. CB4 will be repayable after 3 years from the date of issuance or convertible into shares of the Company at the conversion price of HK$0.1 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues). During the six months ended 30 June 2010, CB4 with principal amount of HK$80 million was converted by its holder.

The initial recognition of CB1, CB2, CB3 and CB4 in the consolidated statement of financial position is calculated as follows:

			Unaudited		
	CB1	**CB2**	**CB3**	**CB4**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Proceeds of issue	20,000	230,000	194,500	200,000	644,500
Equity component	(4,582)	–	–	(28,993)	(33,575)
Compound derivative component on initial recognition	–	(163,162)	(53,794)	–	(216,956)
Liability component	15,418	66,838	140,706	171,007	393,969

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

16. CONVERTIBLE BONDS *(CONTINUED)*

Movement of liability component for the six months ended 30 June 2010 and 2009 is as follows:

			Unaudited 30 June 2010		
	CB1 *HK$'000*	**CB2** *HK$'000*	**CB3** *HK$'000*	**CB4** *HK$'000*	**Total** *HK$'000*
At beginning of the period	**–**	**195,000**	**141,839**	**–**	**336,839**
Initial recognition upon issuance of bonds	**–**	**–**	**–**	**171,007**	**171,007**
Payment of interest	**–**	**–**	**(4,520)**	**–**	**(4,520)**
Payment of premium	**–**	**–**	**(15,858)**	**–**	**(15,858)**
Interest expense	**–**	**–**	**1,210**	**500**	**1,710**
Conversion of convertible bonds	**–**	**–**	**–**	**(68,462)**	**(68,462)**
Default interest expense	**–**	**–**	**1,809**	**–**	**1,809**
Amount redeemed	**–**	**–**	**(124,480)**	**–**	**(124,480)**
At end of the period	**–**	**195,000**	**–**	**103,045**	**298,045**
Less: amount included under current liabilities	**–**	**(195,000)**	**–**	**–**	**(195,000)**
Amount included under non-current liabilities	**–**	**–**	**–**	**103,045**	**103,045**

			Unaudited 30 June 2009		
	CB1 *HK$'000*	CB2 *HK$'000*	CB3 *HK$'000*	CB4 *HK$'000*	Total *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

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

16. CONVERTIBLE BONDS *(CONTINUED)*

Movement of compound derivative components for the six months ended 30 June 2010 and 2009 is as follows:

	Unaudited 30 June 2010			Unaudited 30 June 2009		
	CB2	**CB3**	**Total**	CB2	CB3	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the period	–	–	–	18,444	4,788	23,232
Fair value gain	–	–	–	200,382	92,339	292,721
At end of the period	–	–	–	218,826	97,127	315,953
Less: amount included under current liabilities	–	–	–	–	(97,127)	(97,127)
Amount included under non-current liabilities	–	–	–	218,826	–	218,826

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 were as follows:

	CB2 30 June 2009	CB3 30 June 2009
Stock price	HK$1.07	HK$1.07
Expected volatility	82.17%	82.11%
Risk free rate	0.32%	0.355%
Expected life	17 months	17 months

Any changes in the major inputs into the models would result in changes in the fair value of the compound derivative components. The change in the fair value of the compound derivative components for the six months ended 30 June 2009 resulted in a fair value loss of approximately HK$292.7 million, which had been recorded as the "Change in fair value of compound derivative financial instruments" in profit or loss for the six months ended 30 June 2009.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

17. DEFERRED TAX – GROUP

The Group has taxable losses arising in Hong Kong of approximately HK$1.7 million (31 December 2009: approximately HK$1.7 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the unpredictability of future profits.

Movement in deferred tax liabilities during the six months ended 30 June 2010 as follows:

		Unaudited 30 June 2010			Unaudited 30 June 2009	
	Mining funds	**Amortisation allowance on mining rights in excess of related amortisation**	**Total**	Mining funds	Amortisation allowance on mining rights in excess of related amortisation	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the period	**3,744**	**9,545**	**13,289**	–	–	–
Charged to profit or loss *(note 7)*	**1,177**	**927**	**2,104**	–	–	–
Exchange difference	**65**	**149**	**214**	–	–	–
At end of the period	**4,986**	**10,621**	**15,607**	–	–	–

Note: Pursuant to changes in certain regulations of the PRC government, the Group is required to set aside the mining funds (i.e. production maintenance fee and safety fund). Such mining funds are deductible for tax purpose when they are set aside but are expensed for accounting purpose only when they are utilised, a deferred tax liability is provided for the temporary difference in respect of the excess fund set aside for statutory purposes.

As at 30 June 2010, deferred tax liabilities amounted to approximately HK$58.3 million (31 December 2009: approximately HK$51.8 million) in respect of the aggregate amount of temporary differences of approximately HK$582.5 million (31 December 2009: approximately HK$517.6 million) associated with the undistributed earnings of certain of the Group's subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of the differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

18. SHARE CAPITAL

	Notes	Unaudited 30 June 2010 Number of shares	Unaudited 30 June 2010 HK$'000	Unaudited 30 June 2009 Number of shares	Unaudited 30 June 2009 HK$'000
Authorised:					
At beginning of the period, ordinary shares of HK$0.1 each		**3,000,000,000**	**300,000**	3,000,000,000	300,000
Increase in authorised ordinary shares	*(a)*	**27,000,000,000**	**2,700,000**	–	–
At end of the period, ordinary shares of HK$0.1 each		**30,000,000,000**	**3,000,000**	3,000,000,000	300,000
Issued and fully paid:					
At 1 January		**2,118,130,674**	**211,813**	669,589,885	66,959
Exercise of share options	*(b)*	**–**	**–**	14,400,000	1,440
Conversion of convertible bonds	*(c)*	**800,000,000**	**80,000**	57,142,857	5,714
Bonus Issue	*(d)*	**–**	**–**	591,386,193	59,139
At end of the period		**2,918,130,674**	**291,813**	1,332,518,935	133,252

Notes:

(a) Pursuant to a special resolution passed on 27 May 2010, the authorised share capital of the Company was increased from HK$300 million divided into 3,000,000,000 ordinary shares to HK$3,000 million divided into 30,000,000,000 ordinary shares.

(b) 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.

(c) During the six months ended 30 June 2010, 800,000,000 ordinary shares in aggregate were issued, at the conversion price of HK$0.1 per share, to Victory Investment China Group Limited upon the conversion of CB4. As a result, there was an increase in the share capital and share premium of HK$80 million and approximately HK$0.06 million respectively.

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$17.8 million respectively.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

18. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(d) 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.

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

19. 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 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 allotted 12,100,000 share options to the directors of the Company and the employees of the Group according to the adjustment terms of the Scheme upon the Open Offer becoming unconditional on 1 December 2009. The exercise prices of the share options were further adjusted from HK$0.1972 per share and HK$0.7644 per share to HK$0.1547 per share and HK$0.5995 per share respectively.

No share options was granted nor allotted during the six months ended 30 June 2010.

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 2010.

6,081,750 share options of a director of the Group were forfeited during the six months ended 30 June 2010 (Six months ended 30 June 2009: 100,000 share options of an employee).

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

20. CAPITAL COMMITMENTS

At 30 June 2010, 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$18.6 million (31 December 2009: approximately HK$17.9 million).

21. FINANCIAL GUARANTEE CONTRACTS

As at 30 June 2010, Henan Jinfeng Coal Industrial Group Company Limited ("Jinfeng") and an independent third party entered into an agreement for an inter-company guarantee with a maximum amount up to RMB100 million. As at 30 June 2010, bank loan of RMB20 million was granted to the independent third party, under which Jinfeng is liable to pay the bank if the bank is unable to recover the loan from the independent third party.

As at 31 December 2009, Jinfeng executed a guarantee with respect to a bank loan, denominated in RMB35 million (equivalent to approximately HK$39.8 million), granted to an independent third party, under which Jinfeng was liable to pay the bank if the bank was unable to recover the loan from the independent third party.

As at 30 June 2010, no provision for the Group's obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the loans will be in default (31 December 2009: Nil).

22. 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	
	2010	2009
	HK$'000	*HK$'000*
Total remuneration of key management personnel during the period	**3,060**	3,025

(ii) Conversion of convertible bonds

As mentioned in notes 16 and 18(c), 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. Wu and Mr. Xu are the executive directors of the Company and the directors of Dragon Rich. Mr. Bao was the executive director of the Company and is the director of Dragon Rich.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2010

23. SUBSEQUENT EVENTS

(a) On 12 July 2010, the Group established a wholly owned subsidiary, Henan Zhongyuan JiuAn Foundation and Investment Company Limited ("JiuAn"), in Zhengzhou Economic and Technical Development District, Henan Province, the PRC. The registered capital of JiuAn is RMB650 million. The major purpose of establishing JiuAn is to facilitate the Group's future investment and acquisition activities in coal business.

(b) On 16 July 2010, Henan Yulong and third parties entered into an agreement. Pursuant to the agreement, Henan Yulong and the third parties agreed to inject additional capital of RMB26.5 million and RMB21.5 million respectively to Pindingshan Shilong Qu Langxiang Coal Industrial Company Limited ("Langxiang Coal"). Upon completion, Henan Yulong and the third parties will own 52% and 48% equity interest in Langxiang Coal respectively.

(c) On 22 July 2010, Henan Yulong and a third party entered into an agreement. Pursuant to the agreement, Henan Yulong and the third party agreed to contribute RMB25.5 million and RMB24.5 million to establish a company, Pindingshan Yulong Tianyuan Coal Industrial Company Limited ("Yulong Tianyuan"), with registered capital of RMB50 million. Upon completion, Henan Yulong and the third party will own 51% and 49% equity interest in Yulong Tianyuan respectively. Pursuant to the agreement, Henan Yulong and the third party will acquire all tangible assets and mining rights of Pindingshan Shilong Qu Tianyuan Coal Industrial Company Limited through Yulong Tianyuan at a consideration of RMB50 million.

(d) As at the approval date of this report, the conditions precedent of the acquisitions as set out in note (b) and (c) have not been fulfilled and the acquisitions are not completed.

(e) On 2 August 2010, a fatal explosion occurred in a coal mine in Dengfeng Municipal, Henan Province, the PRC. According to the suspension order given by the relevant local government authorities, all coal mines within Dengfeng Municipal, including five coal mines of the Group namely Xiangyang Coal Mine, Xingyun Coal Mine, Xiaohe Coal Mine No.1, Xiaohe Coal Mine No.2 and Xiaohe Coal Mine No.3, were requested to suspend operations immediately for safety inspection. As at the date of this report, the Board cannot ascertain the duration of the suspension period and is unable to estimate the respective financial effects.

24. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

This unaudited interim financial report was approved and authorised for issue by the Board on 27 August 2010.

CORPORATE INFORMATION

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Mr. Xu Lidi *(Acting Chairman)*
Mr. Wu Jiahong *(Managing Director)*
Mr. Li Chun On
Mr. Yang Hua
Mr. He Guangcai*
Ms. Wen Liman*
Mr. Xu Lian*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr. He Guangcai
Ms. Wen Liman
Mr. Xu Lian

NOMINATION COMMITTEE

Mr. Wu Jiahong
Mr. He Guangcai
Ms. Wen Liman
Mr. Xu Lian

REMUNERATION COMMITTEE

Mr. Wu Jiahong
Mr. He Guangcai
Ms. Wen Liman
Mr. Xu Lian

COMPANY SECRETARY

Mr. Li Chun On

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