



Keep Moving for Sustainable Growth

2011 Interim Report



ENERGY

Kiu Hung Energy Holdings Limited

僑雄能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 00381)

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Corporate Information

Executive Directors

Mr. Hui Kee Fung (*Chairman*)
Mr. Yu Won Kong, Dennis (*Chief Executive Officer*)
Mr. Guo Tianjue
Mr. Lam Kit Sun

Independent Non-executive Directors

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Jin Peihuang

Company Secretary

Mr. Cheung Kai Fung *CPA, FCCA*

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head Office and Principal Place of Business

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central
Hong Kong

Auditor

PricewaterhouseCoopers
22/F., Prince's Building
Central
Hong Kong

Stock Code

381

Company's Website

<http://www.381energy.com>

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

Wing Hang Bank
Head Office
161 Queen's Road Central
Hong Kong

Cayman Islands Principal Share Registrar And Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar And Transfer Office

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

The board of directors (the “Board”) of Kiu Hung Energy Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011.

		Six months ended 30 June	
	<i>Note</i>	2011	2010
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	5	68,731	45,746
Cost of sales		(54,859)	(32,968)
Gross profit		13,872	12,778
Other income		1,081	929
Selling and distribution costs		(9,380)	(10,223)
Administrative expenses		(27,938)	(33,061)
Other gain/(losses)		13,593	(6,932)
Operating loss		(8,772)	(36,509)
Finance costs		(1,055)	(2,170)
Share of profit of a jointly controlled entity		103	467
Loss before income tax		(9,724)	(38,212)
Income tax expense	6	(694)	(100)
Loss for the period	7	(10,418)	(38,312)
Loss attributable to:			
– equity holders of the Company		(10,352)	(37,957)
– non-controlling interests		(66)	(355)
		(10,418)	(38,312)
		HK cents	HK cents
Loss per share attributable to the equity holders of the Company			
– basic and diluted	9	(0.18)	(0.81)

The notes on pages 9 to 16 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Loss for the period	(10,418)	(38,312)
Other comprehensive income:		
Exchange difference arising from translation of foreign operations	13,553	1,689
Adjustment on revaluation of properties	549	–
Deferred tax arising on adjustment on revaluation of properties	(92)	–
Total comprehensive income/(loss) for the period	3,592	(36,623)
Total comprehensive income/(loss) attributable to:		
– equity holders of the Company	3,658	(36,268)
– non-controlling interests	(66)	(355)
	3,592	(36,623)

The notes on pages 9 to 16 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Note	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	90,367	85,584
Prepaid land lease payments		4,690	4,639
Investment properties		8,686	8,500
Exploration and evaluation assets	11	768,269	750,843
Other intangible asset		1,099	1,105
Interest in a jointly controlled entity		1,527	1,423
Deferred tax assets		-	280
		874,638	852,374
Current assets			
Inventories		34,537	18,287
Trade receivables	12	17,465	13,977
Prepayment, deposits and other receivables		11,897	10,190
Due from a jointly controlled entity		7,506	6,509
Tax recoverable		118	116
Bank and cash balances		22,387	49,699
		93,910	98,778
Total assets		968,548	951,152
Current liabilities			
Trade payables	13	27,593	17,893
Accruals and other payables		20,050	20,015
Tax payable		749	1,275
Borrowings		49,747	38,300
		98,139	77,483
Net current (liabilities)/assets		(4,229)	21,295

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	<i>Note</i>	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Total assets less current liabilities		870,409	873,669
Non-current liabilities			
Financial liabilities at fair value through profit or loss	14	–	245,285
Deferred tax liabilities		181,668	177,550
		181,668	422,835
Net assets		688,741	450,834
Equity			
Share capital	15	115,386	100,289
Reserves		573,130	350,254
Equity attributable to equity holders of the Company		688,516	450,543
Non-controlling interests		225	291
Total equity		688,741	450,834

The notes on pages 9 to 16 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Share capital	Share premium	Statutory reserve	Contributed surplus	Foreign currency translation reserve	Share-based payment reserve	Property revaluation reserve	Non-listed warrants reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	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	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(521,545)	196,487	1,633	198,120
Total comprehensive (loss)/income for the period	-	-	-	-	1,689	-	-	-	(37,957)	(36,268)	(355)	(36,623)
Exercise of convertible notes to ordinary shares	4,032	66,528	-	-	-	-	-	-	-	70,560	-	70,560
Issue of shares upon exercise of share options	79	599	-	-	-	(279)	-	-	-	399	-	399
Issue of shares on placement	3,600	55,828	-	-	-	-	-	-	-	59,428	-	59,428
Recognition of share-based payment	-	-	-	-	-	6,892	-	-	-	6,892	-	6,892
Transfer to reserve	-	-	(941)	-	-	-	-	-	941	-	-	-
At 30 June 2010	96,257	683,462	964	303	54,962	11,726	7,976	409	(558,561)	297,498	1,278	298,776
At 1 January 2011	100,289	758,054	3,191	303	71,107	12,468	21,022	-	(515,891)	450,543	291	450,834
Total comprehensive income/(loss) for the period	-	-	-	-	13,553	-	457	-	(10,352)	3,658	(66)	3,592
Exercise of convertible notes to ordinary shares	15,094	218,870	-	-	-	-	-	-	-	233,964	-	233,964
Issue of shares upon exercise of share options	3	23	-	-	-	(11)	-	-	-	15	-	15
Recognition of share-based payment	-	-	-	-	-	336	-	-	-	336	-	336
Release on forfeiture of share options	-	-	-	-	-	(694)	-	-	694	-	-	-
At 30 June 2011	115,386	976,947	3,191	303	84,660	12,099	21,479	-	(525,549)	688,516	225	688,741

The notes on pages 9 to 16 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash outflow from operating activities	(34,918)	(37,861)
Net cash outflow from investing activities	(6,236)	(19,382)
Net cash inflow from financing activities	14,492	70,713
Net (decrease)/increase in cash and cash equivalents	(26,662)	13,470
Cash and cash equivalents at 1 January	49,699	82,713
Effect of foreign exchange rate changes	(650)	1,937
Cash and cash equivalents at 30 June	22,387	98,120

The notes on pages 9 to 16 form an integral part of these condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

1 General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 20/F., Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in the manufacturing and trading of toys & gifts items and exploration and mining of natural resources.

These unaudited condensed consolidated interim financial statements are presented in HK dollars, unless otherwise stated. These unaudited condensed consolidated interim financial statements were approved by the board of directors for issue on 26 August 2011.

2 Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with HKAS 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

3 Accounting policies

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the financial year ended 31 December 2010, except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 January 2011. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group. In addition, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4 Estimates

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2010.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

5 Segment information

The Group has two reportable segments as follows:

Exploration and mining – Exploration and mining of natural resources

Toys and gifts items – Manufacturing and trading of toys and gifts items

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment results do not include gain or loss on change in fair value of convertible notes, corporate finance costs and other corporate income and expenses. Segment assets do not include property, plant and equipment, bank and cash balances and prepayments, deposits and other receivables at corporate level.

(a) Information about reportable segment revenue, results and total assets:

	Exploration and mining	Toys and gifts items	Total
	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2011 (unaudited):			
Revenue from external customers	–	68,731	68,731
Segment loss	(6,033)	(7,064)	(13,097)
Six months ended 30 June 2010 (unaudited):			
Revenue from external customers	3,607	42,139	45,746
Segment loss	(5,711)	(7,868)	(13,579)
Total assets:			
30 June 2011 (unaudited)	808,362	154,428	962,790
31 December 2010 (audited)	795,704	133,905	929,609

5 Segment information (Continued)

(b) Reconciliation of reportable segment results and total assets:

	Six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Reconciliation of segment results:		
Total loss of reportable segments	(13,097)	(13,579)
Unallocated amounts:		
Gain/(loss) on change in fair value of convertible notes (<i>note 7</i>)	11,321	(7,289)
Corporate finance costs	-	(123)
Other corporate income and expenses	(8,642)	(17,321)
Loss for the period	(10,418)	(38,312)
	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Reconciliation of segment assets:		
Total assets of reportable segments	962,790	929,609
Unallocated corporate assets:		
Property, plant and equipment	475	679
Bank and cash balances	4,612	20,372
Prepayments, deposits and other receivables	671	492
	5,758	21,543
Total assets	968,548	951,152

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

6 Income tax expense

Hong Kong profits tax is provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxes on profits have been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates respectively.

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax		
Under-provision for prior year	–	94
The People's Republic of China (the "PRC")		
Provision for the period	414	6
Total current tax	414	100
Deferred tax	280	–
Income tax expense	694	100

7 Loss for the period

The Group's loss for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	3,293	2,796
Amortisation of prepaid land lease payments	54	49
Amortisation of license rights	6	6
(Gain)/loss on change in fair value of convertible notes (<i>note 5</i>)	(11,321)	7,289
Staff costs (including directors' emoluments):		
Wages and salaries	19,301	13,998
Retirement benefits scheme contributions	964	354
Share-based payment expenses	336	6,892
Write-back of provision for impairment of amount due from a jointly controlled entity	(1,697)	(1,369)
Interest expenses on bank loans wholly repayable within 5 years	1,055	2,170

8 Dividend

The Board has resolved not to pay any interim dividend for the period (2010: Nil).

9 Loss per share

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company for the period of approximately HK\$10,352,000 (2010: HK\$37,957,000) and the weighted average of 5,669,109,455 (2010: 4,679,681,500) ordinary shares in issue during the period.

For the six months ended 30 June 2011, the Group has incurred a loss and the conversion of all potential ordinary shares arising from the outstanding share option (granted in 2006, 2007, 2009 and 2010) would have an anti-dilutive effect on the loss per share. Accordingly, the weighted average number of ordinary share was not adjusted to compute the diluted loss per share.

For the six months ended 30 June 2010, the Group has incurred a loss and the conversion of all potential ordinary shares arising from the outstanding share option (granted in 2006, 2007, 2009 and 2010) and financial liabilities at fair value through profit or loss would have an anti-dilutive effect on the loss per share. Accordingly, the weighted average number of ordinary share was not adjusted to compute the diluted loss per share.

10 Property, plant and equipment

During the reporting period, the Group has acquired property, plant and equipment of approximately HK\$6,295,000 (2010: HK\$3,697,000).

11 Exploration and evaluation assets

During the reporting period, exchange gain of approximately HK\$17,426,000 has been recognised as a result of the translation of foreign operations in the PRC (2010: HK\$609,000).

During the six months ended 30 June 2010, the Group has performed further exploration work in Bayanhushuo Coal Field amounted to approximately HK\$14,315,000.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

12 Trade receivables

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 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 department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At 30 June 2011 and 31 December 2010, the ageing analysis of trade receivables based on invoice date, net of provision, were as follows:

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Within 30 days	12,923	11,470
31 days to 90 days	3,462	2,201
91 days to 180 days	250	232
181 days to 360 days	820	47
Over 360 days	10	27
	17,465	13,977

13 Trade payables

At 30 June 2011 and 31 December 2010, the ageing analysis of trade payables based on invoice date were as follows:

	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Within 30 days	7,094	7,198
31 days to 90 days	14,477	7,008
91 days to 180 days	4,033	2,675
181 days to 360 days	1,912	842
Over 360 days	77	170
	27,593	17,893

14 Financial liabilities at fair value through profit or loss

The management has designated the convertible notes of the Company as “financial liabilities at fair value through profit or loss”.

The fair value of financial liabilities at fair value through profit or loss were made with reference to the Company's share price at the end of each reporting period.

During the reporting period, convertible notes with principal amount of HK\$188,680,468 were converted into 754,721,872 ordinary shares at the conversion price of HK\$0.25 per share. The movements in the fair value of the convertible notes were as follows:

	HK\$'000
At 1 January 2010 (audited)	445,800
Converted into ordinary shares of the Company during the year	(149,184)
Fair value gain	(51,331)
At 31 December 2010 (audited)	245,285
Converted into ordinary shares of the Company during the period	(233,964)
Fair value gain	(11,321)
At 30 June 2011 (unaudited)	–

15 Share capital

	Number of shares		Ordinary share capital	
	As at 30 June 2011 (Unaudited)	As at 31 December 2010 (Audited)	As at 30 June 2011 (Unaudited) HK\$'000	As at 31 December 2010 (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.02 each	10,000,000,000	10,000,000,000	200,000	200,000
Issued and fully paid:				
At beginning of period/year	5,014,426,800	4,427,306,800	100,289	88,546
Issue of shares on:				
– Exercise of share options (a)	156,000	3,920,000	3	79
– Conversion of convertible notes (b)	754,721,872	403,200,000	15,094	8,064
– On placement	–	180,000,000	–	3,600
At end of period/year	5,769,304,672	5,014,426,800	115,386	100,289

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

15 Share capital (Continued)

Notes:

- (a) During the reporting period, the Company issued 156,000 (2010: 3,920,000) ordinary shares of HK\$0.02 each in relation to the exercise of the share options at an exercise price of HK\$0.1016 per share (2010: HK\$0.1016). The difference between the exercise price and par value of approximately HK\$12,000 (2010: HK\$320,000) was credited to the Company's share premium account. In addition, the portion of share-based payment reserve in relation to the share options exercised during the period of approximately HK\$11,000 (2010: HK\$279,000) was transferred to the Company's share premium account.
- (b) During the reporting period, the Company issued 754,721,872 (2010: 403,200,000) ordinary shares of HK\$0.02 each in relation to the conversion of the convertible notes at the conversion price of HK\$0.25 per share. The difference between the market price of the conversion shares and par value of the issued ordinary shares of approximately HK\$218,870,000 (2010: HK\$141,120,000) was credited to the Company's share premium account.

16 Related party transactions

	Note	Six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Sales of goods to a jointly-controlled entity	(a)	3,833	3,350
Product development, sale and marketing services fee paid to a related company	(b)	915	788
Interest expenses paid to a shareholder	(c)	–	51

Notes:

- (a) A shareholder of the jointly-controlled entity is also the beneficial owner of 30% equity interest in the Company's subsidiary making the sales.
- (b) The sole owner of the related company is also the director and beneficial owner of 49% (2010: 49%) equity interest in the Company's subsidiary paying for the services.
- (c) Interest was charged at 11% per annum on the principal amount of loan receivable from a shareholder.

17 Capital commitments

The Group did not have any significant capital commitment at the end of reporting period.

Management Discussion and Analysis

Financial Highlights

For the six months ended 30 June 2011 (the "Period"), the Group recorded turnover of approximately HK\$68.7 million (2010: HK\$45.7 million), representing an increase of approximately 50.3% as compared with the same period last year. The Group's loss attributable to equity holders of the Company for the Period was approximately HK\$10.4 million (2010: HK\$38.0 million). The significant decrease in loss attributable to equity holders of the Company for the Period was mainly attributable to (i) an increase in turnover of the Group; (ii) a gain arising on changes in fair value of the Company's financial liabilities at fair value through profit or loss; and (iii) a decrease in share option expenses. Basic loss per share for the Period was HK\$0.18 cents (2010: HK\$0.81 cents). The Board has resolved not to pay any interim dividend for the Period (2010: Nil).

Business and Operational Review

Segmental information analysis

During the Period, the Group continued to engage in the design, manufacture and sales of toys and gifts products and the mining and exploration of natural resources. The Group has two reportable segments, namely "Manufacturing and trading of toys and gifts items" and "Exploration and mining of natural resources".

Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business was approximately HK\$68.7 million for the Period (2010: HK\$42.1million). The increase in turnover by approximately 63.2% was mainly due to some sales orders of the same period last year were shipped in the second half of last year and the sales orders of new products launched during the Period. Gross profit margin for the Period was 20.4% (2010: 29.3%). The decrease in gross profit margin was mainly due to the increase in price of raw materials and labor costs during the Period. The segment loss of the manufacturing and trading of toys and gifts items of approximately HK\$7.1 million (2010: HK\$7.9 million) decreased by approximately 10.1%.

Exploration and mining of natural resources

The Group owned the mining rights of Huanghuashan Coal Mine and exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region, the PRC with total estimated coal resources of approximately 507.9 million tonnes under the JORC Code as follows:

Inferred Resources	
<i>(Million Tonnes)</i>	
Guerbanhada Coal Mine ("GCM")	106.00
Huanghuashan Coal Mine ("HCM")	7.85
Bayanhushuo Coal Field ("BCF")	394.05
Total	507.90

HCM had officially commenced production in December 2009. During the Period, HCM has been under construction to further upgrade its mining structure in order to boost its production capacity. As such, there was no revenue contributed from HCM during the Period (For the six months ended 30 June 2010: HK\$3.6 million).

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, GCM has estimated coal resources of approximately 106 million tonnes of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal coal market. The master planning (總體規劃) of GCM has been agreed by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會) and has been submitted to National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and National Energy Commission of the PRC (中華人民共和國國家能源局) for their approvals during 2010. The licence period of the exploration right of GCM is from 22 September

Management Discussion and Analysis

2009 to 22 September 2011 and is subject to renewal. In order to expedite the application process of the mining licence of GCM, the Group has been closely following up the application in its best endeavour. The directors of the Company are very confident and determined to obtain the approval for the master planning of GCM from National Development and Reform Commission of the PRC and National Energy Commission of the PRC successfully.

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, BCF has estimated coal resources of approximately 394 million tonnes of high quality thermal coal. During the Period, the design of the master planning of BCF has been recently commenced.

Selling and distribution expenses

Selling and distribution expenses for the Period decreased by approximately 7.8% to approximately HK\$9.4 million as compared to approximately HK\$10.2 million in the same period last year. The decrease was mainly due to the decrease in commission expenses of approximately HK\$0.6 million.

Administrative expenses

Administrative expenses for the Period decreased by approximately 15.7% to approximately HK\$27.9 million as compared to approximately HK\$33.1 million in the same period last year. The decrease was mainly attributable to a decrease in share option expenses of approximately HK\$6.6 million.

Other gain/(losses)

Other gain for the Period was approximately HK\$13.6 million. It was mainly attributable to the fair value gain on financial liabilities at fair value through profit or loss of approximately HK\$11.3 million. Other losses in the same period last year mainly represented a net effect of the fair value loss on financial liabilities at fair value through profit or loss of approximately HK\$7.3 million and the reversal of provision for impairment of amount due from a jointly controlled entity of approximately HK\$1.4 million.

Finance costs

Finance costs for the Period decreased by approximately 50.0% to approximately HK\$1.1 million when compared to approximately HK\$2.2 million in the same period last year. The decrease was mainly due to a decrease in borrowings during the Period as compared to the same period last year.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in Hong Kong and in the PRC. As at 30 June 2011, the Group had bank and cash balances of approximately HK\$22.4 million (31 December 2010: HK\$49.7 million). The Group's bank and cash balances were mostly held in Hong Kong dollars and Renminbi.

As at 30 June 2011, the Group's borrowings amounted to approximately HK\$49.7 million (31 December 2010: HK\$38.3 million). The Group's borrowings were denominated in Hong Kong dollars and Renminbi, of which approximately 12.1% (31 December 2010: 63.6%) bore interest at fixed lending rate.

The Group had financial liabilities at fair value through profit or loss of approximately HK\$245.3 million as at 31 December 2010. All such financial liabilities had been fully converted into 754,721,872 ordinary shares of the Company during the Period.

The gearing ratio of the Group calculated as the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity was approximately 11.0% as at 30 June 2011 (31 December 2010: 6.16%).

As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant. As such, the Group had not used any financial instruments for hedging during the Period.

As at 30 June 2011, certain property, plant and equipment, prepared land lease payments, investment properties and trade receivables held by the Group with aggregate carrying values of approximately HK\$39.2 million (31 December 2010: 55.7 million) were pledged to secure general banking facilities granted to the Group.

As at 30 June 2011, the Group did not have any significant capital commitment or contingent liabilities (31 December 2010: Nil).

Business Prospects and Future Plan

We believe our coal business is important for the Group as it enables us to tap the energy and natural resources business and to enter into a diversified and high growth development stage. We are positive about the prospect of the coal mining industry in the PRC. As coal is the major source of the PRC's primary energy consumption, we believe that the demand for coal from the power and other industries will continue to be robust in the foreseeable future in view of the continual economic growth in the PRC.

Going forward, the Group will continue to explore investment opportunities in the energy and natural resources industries in the PRC and other regions that have earning potentials in order to expand its existing operations and to diversify its business.

As the Group has an aggregate amount of existing coal resources of approximately 507.9 million tonnes, we will be able to tap the energy and natural resources business with high growth potential in order to maximize our shareholders' value. With the committed efforts of the dedicated management and staff, we are confident and optimistic on the business prospects of the Group.

Employment, Training and Development

As at 30 June 2011, the Group had a total of 849 employees (2010: 790 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

Corporate Governance and Other Information

Code on Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance. During the Period, the Company has substantially complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”).

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code during the Period.

Audit Committee

The audit committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The audit committee of the Company comprises Mr. Lam Siu Lun, Simon, Mr. Zhang Xianmin and Mr. Jin Peihuang, the independent non-executive directors of the Company. The audit committee has reviewed the unaudited condensed consolidated interim financial statements and the interim report of the Group for the six months ended 30 June 2011.

Change of Directors

Mr. Mohammed Ibrahim Munshi has retired at the annual general meeting of the Company held on 26 May 2011 (the “AGM”) and did not offer himself for re-election as the independent non-executive director of the Company to pursue other career opportunities. Mr. Munshi also ceased to be the member of audit committee, remuneration committee and nomination committee of the Company with effect from 26 May 2011.

On 26 May 2011, Mr. Jin Peihuang has been appointed by the shareholders of the Company at the AGM as an independent non-executive director of the Company in replacement of Mr. Munshi. Mr. Jin has also been appointed as a member of audit committee, remuneration committee and nomination committee of the Company with effect from 26 May 2011.

For details, please refer to the Company’s announcement dated 26 May 2011.

Change in Information of Directors

Mr. Lam Kit Sun resigned as a director of Ruifeng Petroleum Chemical Holdings Limited (formerly known as ThinSoft (Holdings) Inc), a company listed on The Growth Enterprise Market of the Stock Exchange, with effect on 6 July 2011. In addition, the director’s emolument (including any sum receivable as director’s fee or remuneration) per month of Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Guo Tianjue and Mr. Lam Kit Sun has been renewed to HK\$174,000, HK\$300,000, HK\$300,000 and HK\$80,000, respectively, with effect on 1 June 2011. Save as disclosed above, there is no other change in information of the directors of the Company to be disclosed pursuant to Rule 13.51(B) of the Listing Rules subsequent to the date of the 2010 Annual Report of the Company.

Directors’ Interests in Shares

As at 30 June 2011, the interests and short positions of the directors and chief executive 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 Securities and Futures Ordinance (the “SFO”)) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Number of shares or underlying shares held	Capacity			Approximate percentage of shareholding
		Interest of controlled corporation	Interest of child under 18 or spouse	Beneficial owner	
Yu Won Kong, Dennis (Note 1)	1,167,785,051	584,248,230	14,500,000	569,036,821	20.24%
Hui Kee Fung (Note 2)	775,500,000	767,500,000	–	8,000,000	13.44%
Guo Tianjue	8,000,000	–	–	8,000,000	0.14%
Lam Kit Sun	8,000,000	–	–	8,000,000	0.14%
Lam Siu Lun, Simon	6,000,000	–	–	6,000,000	0.10%
Zhang Xianmin	6,000,000	–	–	6,000,000	0.10%

Notes:

1. The entire issued share capital of Gold Dynasty Investments Limited is beneficially owned as to 45% by Top Advance Group Limited. The entire issued share capital of Top Advance Group Limited is beneficially owned as to 50% by Strong Choice Investments (Holdings) Ltd., the entire issued share capital of which is beneficially owned by Yu Won Kong, Dennis.
2. The shares are held by Legend Win Profits Limited. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung and Hui's K. K. Foundation Limited as to 38.95% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung is a registered member and director of Hui's K. K. Foundation Limited.

Save as disclosed above, as at 30 June 2011, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed in the paragraphs headed "Directors' Interests in Shares" and "Share Option Scheme" of this

interim report, 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 spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding 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

So far as is known to any director or chief executive of the Company, as at 30 June 2011, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Corporate Governance and Other Information

Long position in the shares of the Company

Name of shareholder	Number of shares or underlying shares held	Capacity			Approximate percentage of shareholding
		Beneficial owner	Interest of controlled corporation	Interest of child under 18 or spouse	
Ho Siu Lan, Sandy (Note 1)	1,167,785,051	14,500,000	–	1,153,285,051	20.24%
Kau Man Wai, Leslie (Note 2)	806,555,051	222,306,821	584,248,230	–	13.98%
Legend Win Profits Limited (Note 3)	767,500,000	767,500,000	–	–	13.30%
Chung Chi Shing (Note 4)	584,248,230	–	584,248,230	–	10.13%
Gold Dynasty Investments Limited (Note 4)	584,248,230	584,248,230	–	–	10.13%
Top Advance Group Limited (Notes 2 & 4)	584,248,230	–	584,248,230	–	10.13%
Ruan Yuan	530,000,000	530,000,000	–	–	9.18%

Notes:

- Ho Siu Lan, Sandy is the spouse of Yu Wong Kong, Dennis, an executive director of the Company.
- The entire issued share capital of Top Advance Group Limited is beneficially owned as to (i) 50% by Strong Choice Investments (Holdings) Ltd., the entire issued share capital of which is beneficially owned by Yu Won Kong, Dennis; and (ii) 50% by Kau Man Wai, Leslie.
- Details of Legend Win Profits Limited are disclosed in the paragraph headed "Directors' Interest in Shares" of this interim report.
- The entire issued share capital of Gold Dynasty Investments Limited is beneficially owned as to (i) 55% by Uniview Holdings Limited, the entire issued share capital of which is beneficially owned by Chung Chi Shing; and (ii) 45% by Top Advance Group Limited.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company as at 30 June 2011.

Share Option Scheme

The Company adopted a share option scheme (the “Scheme”) which became effective on 28 May 2002. Pursuant to the Scheme, the directors may, at their discretion, invite any eligible participants of the Group to take up options to

subscribe for shares subject to the terms and conditions stipulated therein.

The following table discloses movements in the outstanding share options during the Period:

Grantee	Date of grant	Number of share options				Outstanding at 30 June 2011	Exercisable at 30 June 2011	Exercise period	Exercise price
		Outstanding at 1 January 2011	Granted during the period	Exercised during the period	Forfeited during the period				
(Executive Directors)									
Yu Won Kong, Dennis	11 Jan 2010	22,000,000	-	-	-	22,000,000	22,000,000	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
		22,000,000	-	-	-	22,000,000	22,000,000		HK\$0.6000
Hui Kee Fung	11 Jan 2010	4,000,000	-	-	-	4,000,000	4,000,000	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
		4,000,000	-	-	-	4,000,000	4,000,000		HK\$0.6000
Guo Tianjue	11 Jan 2010	4,000,000	-	-	-	4,000,000	4,000,000	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
		4,000,000	-	-	-	4,000,000	4,000,000		HK\$0.6000
Lam Kit Sun	11 Jan 2010	4,000,000	-	-	-	4,000,000	4,000,000	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
		4,000,000	-	-	-	4,000,000	4,000,000		HK\$0.6000
(Independent Non-executive Directors)									
Lam Siu Lun, Simon	27 Oct 2009	3,000,000	-	-	-	3,000,000	3,000,000	27 Oct 2010 to 27 Oct 2012	HK\$0.4000
		3,000,000	-	-	-	3,000,000	-		27 Oct 2011 to 27 Oct 2012
Zhang Xianmin	27 Oct 2009	3,000,000	-	-	-	3,000,000	3,000,000	27 Oct 2010 to 27 Oct 2012	HK\$0.4000
		3,000,000	-	-	-	3,000,000	-		27 Oct 2011 to 27 Oct 2012
Mohammed Ibrahim Munshi (resigned on 26 May 2011)	27 Oct 2009	3,000,000	-	-	(3,000,000)	-	-	27 Oct 2010 to 27 Oct 2012	HK\$0.4000
		3,000,000	-	-	(3,000,000)	-	-		27 Oct 2011 to 27 Oct 2012
Employees	19 Jun 2006	46,898,600	-	(156,000)	-	46,742,600	46,742,600	1 Jan 2007 to 18 Jun 2016	HK\$0.1016
	5 Jul 2007	3,300,000	-	-	-	3,300,000	3,300,000	1 Jul 2008 to 18 Jun 2016	HK\$0.7400
	21 Dec 2009	3,000,000	-	-	-	3,000,000	3,000,000	21 Dec 2010 to 21 Dec 2012	HK\$0.4240
	21 Dec 2009	3,000,000	-	-	-	3,000,000	-	21 Dec 2011 to 21 Dec 2012	HK\$0.6000
Total		142,198,600	-	(156,000)	(6,000,000)	136,042,600	127,042,600		

Note:

1. During the Period, 156,000 options were exercised and the weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$0.225.

Corporate Governance and Other Information

Purchase, Redemption or Sale of Listed Securities

During the Period, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities.

Appreciation

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution during the Period and also to give our sincere gratitude to all our shareholders for their continuous support.

By Order of the Board

Kiu Hung Energy Holdings Limited

Hui Kee Fung

Chairman

Hong Kong, 26 August 2011