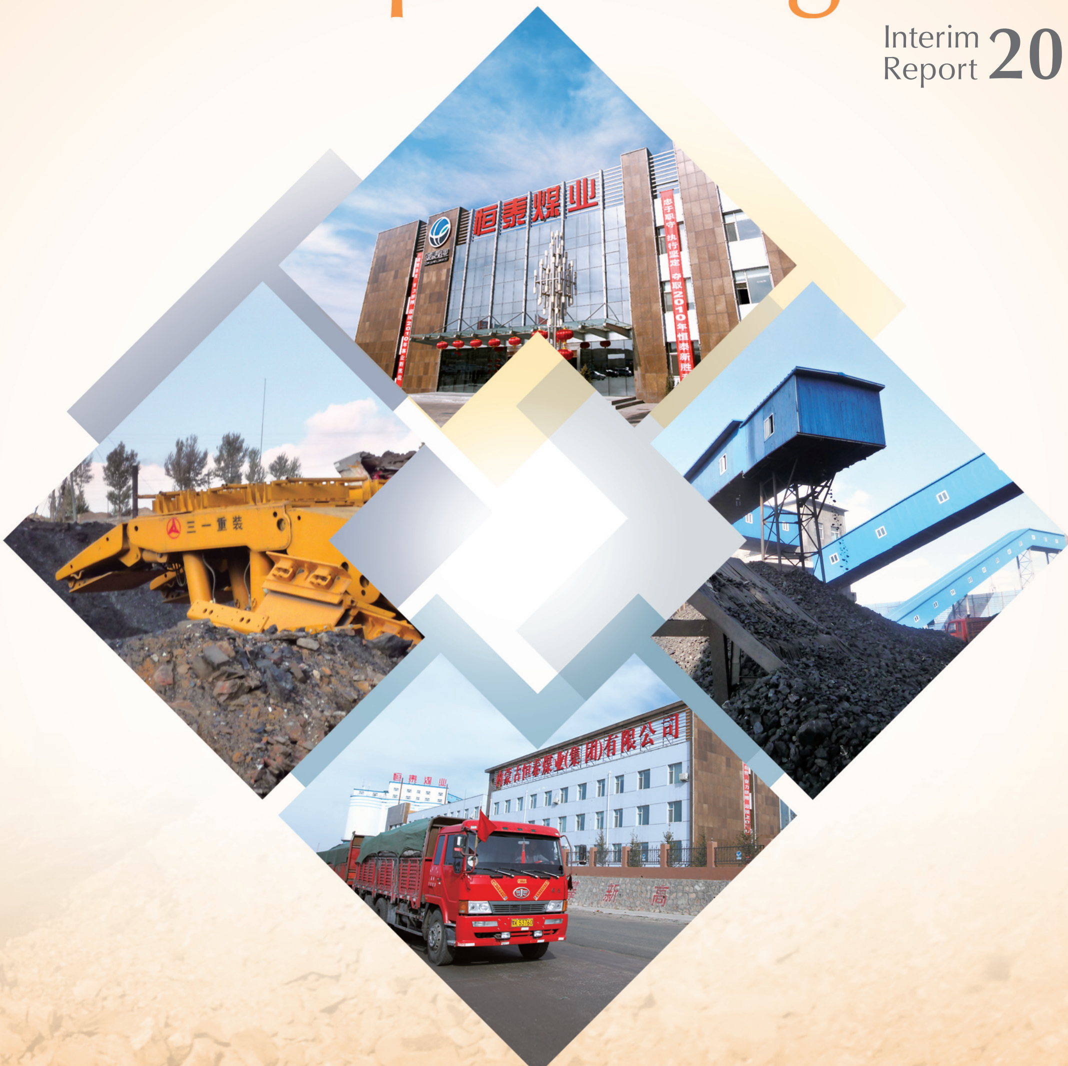
Leading the World to a promising future

Interim Report 2011



金山能源集團有限公司

KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

Corporate Information

Board of Directors

Executive Directors

Dr. Wang Da Yong *(Chairman)*
Mr. Tian Wenwei
Mr. Wang Tongtian

Non-Executive Directors

Mr. Li Yi
Mr. Su Bin

Independent Non-Executive Directors

Mr. Cao Kuangyu
Mr. Chiu Sui Keung
Mr. Jacobsen William Keith

Audit Committee

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

Remuneration Committee

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

Strategy and Investment Committee

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

Advisory Committee

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

Coal Mine Production Safety and Technical Committee

Dr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian
Mr. Li Yi

Authorised Representatives

Dr. Wang Da Yong
Mr. Tian Wenwei

Company Secretary

Mr. Lee Tao Wai

Auditors

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

Legal Advisers

Michael Li & Co
14/F, Printing House
6 Duddell Street
Central
Hong Kong

Registered Office & Principal Place of Business in Hong Kong

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

Share Registrar

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

Company Website

http://www.663hk.com

Stock Code

00663

Results Highlights and Operating Data

- — Revenue of HK$532 million (2010: HK$374 million) — significant increase by HK$158 million (+42%).
- — Gross profit of HK$244 million (2010: HK$189 million) — increase by HK$55 million (+29%).
- — Profit attributable to owners of the Company of HK$94 million (2010: loss of HK$522 million) — a significant turnaround of HK$616 million.
- — EBITDA[1] of HK$363 million (2010: HK$237 million) — increase by HK$126 million (+53%).
- — Output in the first half of 2011: 2.2 million tonnes (2010: 1.5 million tonnes) — increase by 0.7 million tonnes (+47%).

(HK$'000)	1H 2010	FY 2010	1H 2011
Revenue	374,394	1,007,740	532,202
Gross profit	188,922	524,685	243,504
Gross profit margin (%)	50.5%	52.1%	45.8%
EBITDA[1]	237,181	661,847	363,322
EBITDA margin (%)	63.4%	65.7%	68.3%
Profit/(loss) for the period attributable to owners of the Company	(521,535)	(905,164)	94,098
Average realized selling price (exclusive of VAT) in 1H 2011(RMB)			RMB206/tonne

Note:

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

Eerduosi Hengtai

	Resources (million tonnes)	Reserves (million tonnes)
Total resources/reserves (JORC – compliant)	203.87	71.86
Actual output in 2010	4.00	4.00
Actual output in 1H 2011	2.20	2.20
Resources/reserves as at 30 June 2011	197.67	65.66

Note: The resources/reserves as at 30 June 2011 are derived from total resources/reserves extracted from technical report issued by BOYD dated 18 November 2009 after deduction of actual output up to 30 June 2011 based on Hengtai's record.

In the first half of 2011, capital expenditure for development and mining production activities was approximately HK$161 million.

Milestone

TARGET : TO BECOME A LEADING AND DIVERSIFIED COAL ENTERPRISE IN THE COAL MINING INDUSTRY IN CHINA

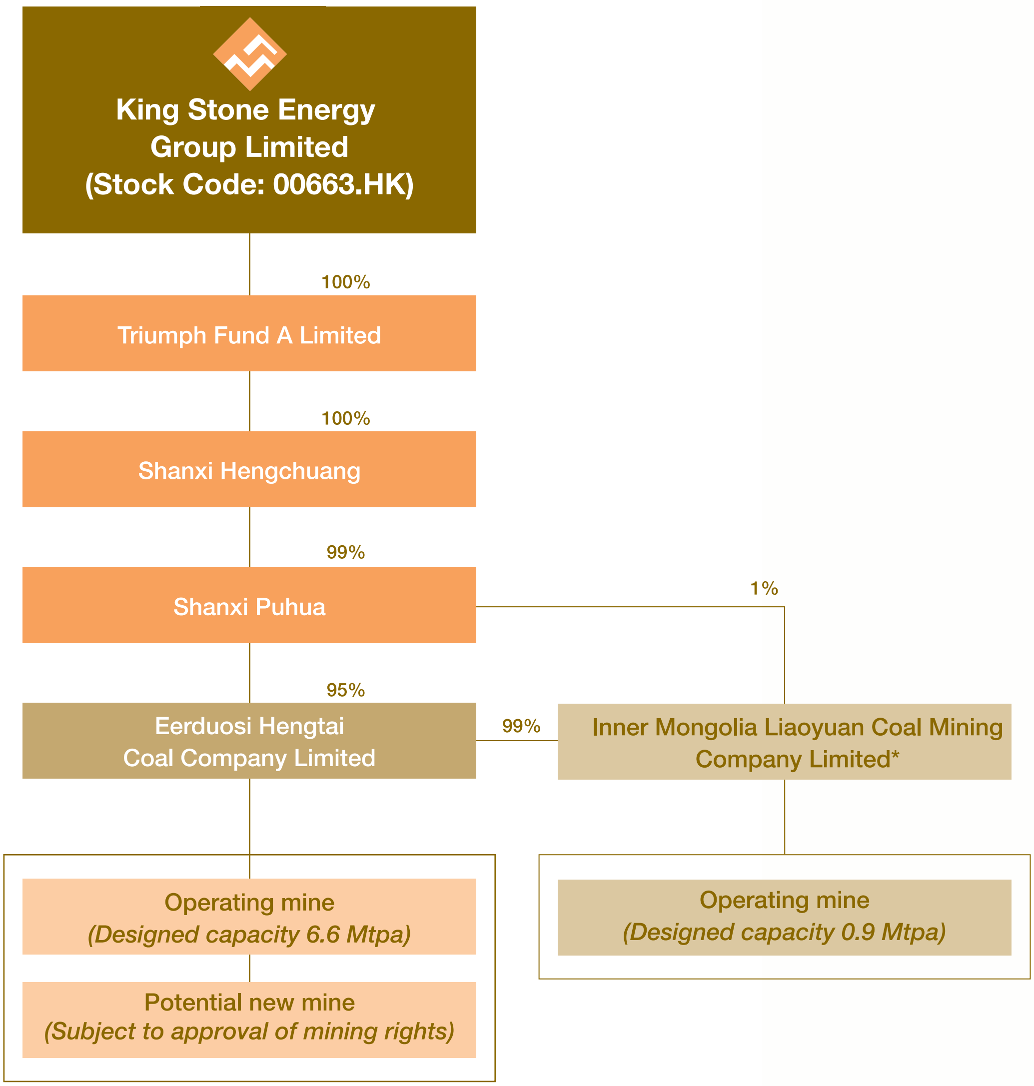
2011

11 August	The Group acquired 100% equity interest in Inner Mongolia Liaoyuan Coal Mining Co., Ltd which owns a thermal coal mine in Eerduosi City, Inner Mongolia
2 June	The Group entered into an agreement with CITIC Trust Co., Ltd to establish a joint venture
26 April	The Group entered into a strategic cooperation agreement for forming a strategic alliance with CITIC Trust Co., Ltd
25 February	The acquisition of Triumph Fund A1 Limited was approved by shareholders
24 February	The Group entered into a strategic framework agreement for forming a strategic alliance with China Railway Materials Energy Company Limited

2010

21 October	The Group entered into a sale and purchase agreement and a call option agreement to acquire a maximum of 100% equity interest in Triumph Fund A1 Limited which owns two thermal and gas coal mines in Shanyin County, Shuozhou City, Shanxi Province
14 July	The Group entered into service contracts with the executive directors The Coal Mine Production Safety and Technical Committee was established
1 March	The Advisory Committee was established
26 February	Dr. Wang Da Yong was appointed as the chairman of the Group
18 February	The company name was changed to King Stone Energy Group Limited

Group Structure



* The acquisition was completed on 11 August 2011.

Chairman's Statement

On behalf of the board (the "Board") of directors of King Stone Energy Group Limited (the "Company" or "King Stone Energy", together with its subsidiaries, the "Group"), I am delighted to present to all shareholders, the interim results and report on the Company's performance and development for the six months ended 30 June 2011.

During the first half of 2011, several major macroeconomic factors contributed to steadily climbing coal prices. These factors included, among others, the general recovery of global economic environment, Japan's reconstruction work following the March 2011 tsunami and the strong and steady growth of China's economy. Additionally, China experienced a tight supply for coal due to a drastic reduction in coal imports. Therefore, there existed a significant gap between the domestic demand and available coal supply, which has resulted in severe power shortages. China also experienced a rapid growth of major coal reliant industries including power, steel and cement and this has further pushed up demand for coal in China and created for King Stone Energy, a favourable operating environment.

During the period under review, King Stone Energy has relentlessly pursued its targets and its coal business has seen dynamic growth. The Group was actively looking for strategic partners and successfully entered into strategic cooperation with state-owned CITIC Trust Co., Ltd ("CITIC Trust") and China Railway Materials Energy Company Limited ("China Railway Energy"). In August 2011, the Group acquired a thermal coal mine in Inner Mongolia ("Liaoyuan Coal Mine") which will further boost the Group's production capacity and coal reserves. The Company has therefore recorded a turnaround profit during the period under review.

Turnaround Profit

In 2010, King Stone Energy recorded over HK$900 million loss attributable to owners of the Company. As certain terms of the convertible notes were amended from the end of last year, the fair value change had no longer affect the results starting from this financial year. Hence, the Company believes its financial statements now better reflect the Group's operating performance. For the first half of 2011, King Stone Energy recorded a turnaround profit of approximately HK$94 million.

Capital Reorganization and Strengthen Shareholder Structure

In order to strengthen the Company's shareholder base and attract other high quality institutional investors, the Company has proposed in May to undergo capital reorganization including a 20 to 1 share consolidation and the reduction of the share premium account. In addition, the board lot size was reduced from 20,000 shares to 1,000 shares. The proposed reduction of the share premium account will allow for the elimination of accumulated losses and enable a more accurate reflection of the Company's current financial and operational status.

Introduce Strategic Partners to Reduce Operating Cost

In China, railway is the primary way of transporting coal. Coal production is heavily reliant on mines in the north-west region of China, including Shanxi Province, Shaanxi Province and Inner Mongolia whilst consumption is mainly concentrated in the south-eastern provinces. Therefore, transportation has become an indispensible element of coal mining enterprises in China.

During the period, the Group entered into strategic agreement with China Railway Energy. China Railway Energy has agreed to build or acquire railway stations and logistic parks for coal in various regions such as Eerduosi City in Inner Mongolia and Shanxi Province in the PRC. Upon completion of the project, King Stone Energy will have priority usage of these facilities for coal transporting, which could significantly reduce the Company's operating cost and enhance the Company's competitiveness.

A Full Range of Financial Support Provided by CITIC Trust

As part of King Stone Energy's rapid expansion, the Company entered into a joint venture agreement with CITIC Trust to establish a fund management company. The joint venture was established to develop high quality coal mines, acquire and integrate coal resources, invest in areas of environmentally clean production and integrate the utilisation of coal with the development of emissions reduction and energy saving practices. CITIC Trust has also agreed to provide the Company with their full range of financial support. The establishment of the joint venture as well as CITIC Trust's backing has created for the Group, a platform for new growth opportunities in the PRC and overseas.

Organic Growth Through Merger and Acquisition Core to The Company's Long Term Development

King Stone Energy is continually looking for projects with high quality coal mines to further expand its reach through merger and acquisition activity. The Group acquired a thermal coal mine in Inner Mongolia ("Liaoyuan Coal Mine") in August this year to further boost the Group's production capacity in Inner Mongolia. Liaoyuan Coal Mine is close to the Company's Hengtai mine and is expected to save approximately RMB150 million in construction costs to develop the Hengtai new mine. The close proximity of the mine is expected to enhance its operational efficiency, which would benefit the Group's long term development plans. The Group has also actively expanded its coal resources reserve by increasing its premium coal reserve and improving the competitiveness of its future products. The newly acquired Liaoyuan Coal Mine produces high quality thermal coal with heat value above 5,000 Kcal/kg and has resources of over 15 million tonnes.

Recently, the industrial plan on coal and chemical industry, drafted by the National Development and Reform Commission (NDRC), has been finalized. In the plan, NDRC encourages corporations to grow organically through merger and acquisition and nurture large coal enterprises. NDRC expects that there is room for the Chinese coal industry to grow. The plan is expected to be introduced by the end of this year, consolidation will likely benefit the entire coal industry.

In view of strong demand for coal, coupled with favourable government policies, we remain extremely optimistic about the prospects for China's coal industry. With the expansion in coal production capacity in the second half of the year, as well as the profits contributed by the newly acquired Liaoyuan Coal Mine, it is expected that the performance of the Group will be even better. We have strong confidence in the Group's future growth and development.

King Stone Energy will continue to develop and grow its business horizontally and vertically in order to enhance the Group's competitiveness. The Group will expand its client network and look for more long term cooperation in order to identify stable forms of revenue. As the chairman of the Group, I will continue to lead the team and guide King Stone Energy as it becomes a leading integrated energy player that is not only efficient and profitable but most importantly, creates value for our shareholders.

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

Wang Da Yong
Chairman

23 August 2011

The unaudited consolidated results of the Group for the six months ended 30 June 2011 with comparative figures for the corresponding period in 2010 are as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June **2011** **HK$'000** **(unaudited)**	 2010 HK$'000 (unaudited)
REVENUE	4	**532,202**	374,394
Cost of sales		**(288,698)**	(185,472)
Gross profit		**243,504**	188,922
Fair value loss of convertible notes		**—**	(622,370)
Other income and gains		**46,834**	2,605
Selling and distribution costs		**(1,664)**	(3,003)
Administrative expenses		**(64,056)**	(43,272)
Finance costs	5	**(77,787)**	—
Profit/(loss) before income tax	6	**146,831**	(477,118)
Income tax	7	**(43,928)**	(37,553)
Profit/(loss) for the period		**102,903**	(514,671)
Other comprehensive income — exchange differences on translation of foreign operations		**54,201**	23,066
Total comprehensive income/(loss) for the period		**157,104**	(491,605)
Profit/(loss) for the period attributable to:			
Owners of the Company		**94,098**	(521,535)
Non-controlling interests		**8,805**	6,864
		102,903	(514,671)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**145,082**	(499,857)
Non-controlling interests		**12,022**	8,252
		157,104	(491,605)
Earnings/(loss) per share attributable to ordinary equity holders of the Company	8		
Basic		**HK$0.078**	HK$(0.792)
Diluted		**HK$0.064**	HK$(0.792)

Condensed Consolidated Statement of Financial Position

As at 30 June 2011 and 31 December 2010

	Notes	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	1,414,871	1,305,588
Prepaid land premiums		12,456	12,299
Mining rights		2,326,512	2,343,144
Prepayments		759,103	434,743
Total non-current assets		4,512,942	4,095,774
CURRENT ASSETS			
Inventories		4,500	4,283
Trade and bills receivables	10	323,979	263,346
Prepayments, deposits and other receivables		78,003	171,432
Pledged deposits		428	417
Cash and cash equivalents		635,313	625,216
Total current assets		1,042,223	1,064,694
CURRENT LIABILITIES			
Trade and bills payables	11	1,716	903
Other payables and accruals		607,951	484,748
Interest-bearing bank borrowings	12	421,470	411,775
Derivative component of convertible bonds	13(a)	—	35,452
Liability component of convertible bonds	13(b)	146,056	121,896
Tax payable		226,048	148,413
Total current liabilities		1,403,241	1,203,187
NET CURRENT LIABILITIES		(361,018)	(138,493)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,151,924	3,957,281

Condensed Consolidated Statement of Financial Position *(continued)*

As at 30 June 2011 and 31 December 2010

	Notes	**30 June 2011 HK$'000 (unaudited)**	31 December 2010 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		**42,308**	41,098
Interest-bearing bank borrowings	12	**903,150**	882,375
Convertible notes	14	**304,575**	466,288
Deferred tax liabilities		**521,769**	538,786
Total non-current liabilities		**1,771,802**	1,928,547
Net assets		**2,380,122**	2,028,734
EQUITY			
Equity attributable to owners of the Company			
Issued capital	15	**132,929**	226,298
Reserves		**2,131,370**	1,698,635
		2,264,299	1,924,933
Non-controlling interests		**115,823**	103,801
Total equity		**2,380,122**	2,028,734

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011 (unaudited)

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Equity component of convertible notes HK$'000	Capital redemption reserve HK$'000	PRC Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	226,298	3,065,615	1,239,114	–	–	70,100	24,626	(2,700,820)	1,924,933	103,801	2,028,734
Profit for the period	–	–	–	–	–	–	–	94,098	94,098	8,805	102,903
Other comprehensive income – exchange differences on translation of foreign operations	–	–	–	–	–	50,984	–	–	50,984	3,217	54,201
Total comprehensive income for the period	–	–	–	–	–	50,984	–	94,098	145,082	12,022	157,104
Conversion of convertible notes (note 15(d))	38,927	604,464	(464,985)	–	–	–	–	–	178,406	–	178,406
Share issue expense	–	(59)	–	–	–	–	–	–	(59)	–	(59)
Repurchase of shares (note 15(e))	(367)	–	–	367	–	–	–	–	–	–	–
Share repurchase expenses (note 15(e))	–	–	–	–	–	–	–	(4,317)	(4,317)	–	(4,317)
Capital reorganisation (note 15(f))	(131,929)	131,929	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangement (note 16)	–	–	–	–	–	–	20,254	–	20,254	–	20,254
At 30 June 2011	132,929	3,801,949	774,129	367	–	121,084	44,880	(2,611,039)	2,264,299	115,823	2,380,122

For the six months ended 30 June 2010 (unaudited)

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Equity component of convertible notes HK$'000	Capital redemption reserve HK$'000	PRC Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	77,338	1,133,198	–	–	7,904	6,805	764	(1,803,560)	(577,551)	80,384	(497,167)
Profit/(loss) for the period	–	–	–	–	–	–	–	(521,535)	(521,535)	6,864	(514,671)
Other comprehensive income – exchange differences on translation of foreign operations	–	–	–	–	–	21,678	–	–	21,678	1,388	23,066
Total comprehensive income/(loss) for the period	–	–	–	–	–	21,678	–	(521,535)	(499,857)	8,252	(491,605)
Equity-settled share option arrangement (note 16)	–	–	–	–	–	–	4,538	–	4,538	–	4,538
Conversion of convertible notes	81,360	939,585	–	–	–	–	–	–	1,020,945	–	1,020,945
Share issue expense	–	(150)	–	–	–	–	–	–	(150)	–	(150)
At 30 June 2010	158,698	2,072,633	–	–	7,904	28,483	5,302	(2,325,095)	(52,075)	88,636	36,561

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash flows from operating activities	**482,392**	97,088
Net cash flows used in investing activities	**(477,568)**	(222,416)
Net cash flows from/(used in) financing activities	**(4,376)**	378,853
Net increase in cash and cash equivalents	**448**	253,525
Cash and cash equivalents at beginning of period	**625,216**	98,739
Effect of foreign exchange rate changes	**9,649**	(490)
Cash and cash equivalents at end of period	**635,313**	351,774
Analysis of balances of cash and cash equivalents		
Cash and bank balances other than time deposits	**620,240**	351,774
Time deposits	**15,073**	—
Cash and cash equivalents as stated in the consolidated statement of financial position	**635,313**	351,774

Notes to Condensed Financial Statements

1. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 are unaudited but have been reviewed by the Audit Committee of the Company.

These financial statements have been prepared under the going concern basis, notwithstanding that the Group had net current liabilities of HK$361,018,000 as at 30 June 2011. This is because (1) the directors estimate that the net operating cash inflow generated by the Group's coal mining business shall be adequate to meet with the liabilities and capital commitment of the Group as and when they fall due; (2) Mr. Zhao Ming, a shareholder and a holder of the convertible notes of the Company, has agreed to provide financial support to the Group to enable it to meet with its liabilities as and when they fall due in the foreseeable future.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2010 annual financial statements.

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as stated in note 2 below.

2. Changes in Accounting Policies

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs (May 2010)	Amendments to a number of HKFRSs

2. Changes in Accounting Policies *(continued)*

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

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

3. Operating Segment Information

Over 90% of the Group's revenue, expenses and assets are generated from the business of mining and selling of coal in Mainland China. The management of the Group makes decisions about resources allocation and assesses performance of the Group based on the operating results from these business activities. Accordingly, the directors are of the opinion that mining and selling of coal in Mainland China is a single reportable segment of the Group.

The Group's revenue from external customers is derived solely from its operations in the People's Republic of China ("PRC"), and over 90% of the non-current assets (other than financial assets) of the Group are located in the PRC.

During the period, the Group had transactions with three individual external customers which contributed to over 10% of the Group's total revenue (Period ended 30 June 2010: three). The revenue generated from the three customers amounted to HK$465,659,000 (Period ended 30 June 2010: HK$179,164,000).

4. Revenue

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

5. Finance Costs

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on bank and other loans wholly repayable within five years	**48,295**	39,984
Imputed interest of convertible bonds (note 13(b))	**24,160**	—
Imputed interest of convertible notes (note 14)	**16,693**	—
Interest on convertible bonds	**1,590**	—
Less: Interest capitalised as property, plant and equipment	**(12,951)**	(39,984)
	77,787	—

6. Profit/(loss) Before Income Tax

Profit/(loss) before income tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold	**288,698**	185,472
Depreciation	**82,814**	42,031
Amortisation of prepaid land premiums	**130**	166
Amortisation of mining rights	**70,958**	45,194
Reversal of impairment of trade receivables	**—**	(1,280)
Fair value gain on derivative component of convertible bonds (note 13(a))	**(35,452)**	—
Other income from the termination of subscription agreements	**(10,000)**	—

7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2011 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Current — Mainland China	**73,278**	52,433
Deferred	**(29,350)**	(14,880)
	43,928	37,553

8. Earnings/(loss) per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings/(loss) per share amounts is based on the earnings/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,206,120,685 (2010: 658,213,835) in issue during the period.

The calculation of diluted earnings per share amount for the six months ended 30 June 2011 is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interests on the convertible notes/bonds and fair value gain on derivative component of convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 158,387, 332,364,000 and 39,750,000 assumed to have been issued at no consideration on the deemed exercise and conversion of share options, convertible notes and convertible bonds into ordinary shares.

For the six months ended 30 June 2010, no adjustment has been made to the basic loss per share amounts presented in respect of a dilution as the share options of the Company outstanding during that period and the deemed conversion of the convertible notes issued by the Company have anti-dilutive effects on the basic loss per share amounts for that period.

8. Earnings/(loss) per Share Attributable to Ordinary Equity Holders of the Company *(continued)*

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Earnings/(Loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**94,098**	(521,535)
Imputed interest of convertible bonds (note 5)	**24,160**	
Imputed interest of convertible notes (note 5)	**16,693**	
Interest on convertible bonds (note 5)	**1,590**	
Fair value gain on derivative component of convertible bonds (note 6)	**(35,452)**	
Profit attributable to ordinary equity holders of the Company before financial impacts of convertible notes/bonds	**101,089**	

	Number of shares For the six months ended 30 June	
	2011	2010
Shares#		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	**1,206,120,685**	658,213,835
Effect of dilution — weighted average number of ordinary shares:		
Share options	**158,387**	
Convertible notes	**332,364,000**	
Convertible bonds	**39,750,000**	
	1,578,393,072	

The above number of shares has been adjusted to reflect the effect of capital reorganisation effective from 27 June 2011 (the "Capital Reorganisation") as further detail in note 15(f).

9. Property, Plant and Equipment

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
At beginning of year/period		
Cost	1,417,380	852,931
Accumulated depreciation	(111,792)	(1,116)
Net carrying amount	1,305,588	851,815
At beginning of year/period, net of accumulated depreciation	1,305,588	851,815
Additions	160,961	622,599
Depreciation provided during the year/period	(82,814)	(109,134)
Written back on disposal	(495)	(90,677)
Disposal of a subsidiary	—	(52)
Exchange realignment	31,631	31,037
At end of year/period, net of accumulated depreciation	1,414,871	1,305,588
At end of year/period		
Cost	1,612,881	1,417,380
Accumulated depreciation	(198,010)	(111,792)
Net carrying amount	1,414,871	1,305,588

10. Trade and Bills Receivables

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

10. Trade and Bills Receivables *(continued)*

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

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
0 to 30 days	243,311	251,318
31 to 60 days	3,272	—
61 to 90 days	—	—
91 to 180 days	81,968	6,178
181 to 365 days	—	1,477
More than 365 days	2,607	11,387
	331,158	270,360
Provision for impairment	(7,179)	(7,014)
	323,979	263,346

11. Trade and Bills Payables

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

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
0 to 30 days	429	604
31 to 60 days	247	82
61 to 90 days	110	—
91 to 180 days	703	71
181 to 365 days	201	143
More than 365 days	26	3
	1,716	903

The trade payables are non-interest-bearing and are normally settled on a term of 60-day.

12. Interest-bearing Bank Borrowings

	Effective interest rate (%)	Maturity	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Current				
Bank loans — unsecured	5.31%–7.97%	2011–2012	421,470	411,775
Non-current				
Bank loans — secured	8.38%–8.58%	2012–2015	903,150	882,375
			1,324,620	1,294,150
Analysed into:				
Bank loans:				
Within one year			421,470	411,775
In the third to fifth years, inclusive			903,150	882,375
			1,324,620	1,294,150

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

(i) Bank loan of RMB500,000,000 (equivalent to approximately HK$602,100,000) (31 December 2010: RMB500,000,000 (equivalent to approximately HK$588,250,000)) is subject to the floating interest rate for five-year loans published by the People's Bank of China, and is repayable by instalments in 2011 to 2013. Such bank loan is secured by:

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

(ii) pledges over the Group's mining rights.

12. Interest-bearing Bank Borrowings *(continued)*

(ii) Bank loan of RMB250,000,000 (equivalent to approximately HK$301,050,000) (31 December 2010: RMB250,000,000 (equivalent to approximately HK$294,125,000)) is subject to the floating interest rate for six-year loans published by the People's Bank of China, and is repayable by instalments in 2014 to 2015. Such bank loan is guaranteed by Mr. Zhao Ming and Mr. Hao Shenhai, and is secured by the Group's mining rights.

(iii) Bank loan of RMB20,000,000 (equivalent to approximately HK$24,084,000) (31 December 2010: RMB20,000,000 (equivalent to approximately HK$23,530,000)) is subject to a floating interest rate based on 120% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 19 December 2011. Such bank loan is guaranteed by 山西普大煤業集團有限公司 (an entity which Mr. Zhao Ming has certain shareholding therein).

(iv) Bank loan of RMB30,000,000 (equivalent to approximately HK$36,126,000) (31 December 2010: RMB30,000,000 (equivalent to approximately HK$35,295,000)) is subject to a floating interest rate based on 130% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 10 May 2012 (2010: 28 March 2011). Such bank loan is guaranteed by independent third parties, 內蒙古東達蒙古王有限公司 and Ms. Bian Xiao Yan (2010: and Mr. Hao Shenhai).

(v) Bank loan of RMB300,000,000 (equivalent to approximately HK$361,260,000) (31 December 2010: Nil) is subject to a fixed annual interest rate of 6.31% and the maturity date is 20 June 2012. Such bank loan is guaranteed by 山西普大煤業集團有限公司, 內蒙古伊東集團恒東能源有限責任公司 (an independent third party) and Mr. Xu Jianhua (the director of Hengtai).

13. Convertible Bonds

On 24 September 2010, the Company issued one-year convertible bonds in the principal amount of HK$195,000,000 which bear interest at a rate of 2% per annum payable semi-annually in advance (the "2010 CB"). The 2010 CB can be converted into ordinary shares at an initial conversion price of HK$0.2 per share (which has been adjusted to HK$4.0 per share due to the Capital Reorganisation, as further detailed in note 15(f)).

The conversion option of the 2010 CB exhibited characteristics of an embedded derivative, thus is separated from its liability component. On initial recognition, the derivative component of the 2010 CB is measured at fair value and presented as part of the derivative liability. Any excess of the net proceeds received by the Company over the amount initially recognised as the derivative component is recognised as the liability component. Subsequently, changes in the fair value of the derivative component of the 2010 CB are recognised in profit or loss in the period in which they arise and the liability component of the 2010 CB is stated at amortised cost.

13. Convertible Bonds *(continued)*

Notes:

(a) The movements of the derivative component during the year/period are as follows:

	Note	**30 June 2011 HK$'000 (unaudited)**	31 December 2010 HK$'000 (audited)
At beginning of year/period		**35,452**	—
At the issue date		**—**	49,833
Fair value change, net		**(35,452)**	(2,736)
Converted into ordinary shares of the Company	15(b)	**—**	(11,645)
At end of year/period		**—**	35,452

(b) The movements of the liability component during the year/period are as follows:

	Notes	**30 June 2011 HK$'000 (unaudited)**	31 December 2010 HK$'000 (audited)
At beginning of year/period		**121,896**	—
At the issue date		**—**	135,417
Imputed interest expense	5	**24,160**	12,707
Converted into ordinary shares of the Company	15(b)	**—**	(26,228)
At end of year/period		**146,056**	121,896

14. Convertible Notes

On 21 December 2009, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK$1,805,000,000 (the "2009 CN"), for the acquisition of the entire issued share capital of Triumph and its subsidiaries. The 2009 CN have a 5-year maturity term, however, the Company has the right at any time after 3 years of the issue date to redeem in whole or in part of the 2009 CN at its face value. The 2009 CN can be converted into ordinary shares at the initial conversion price of HK$0.0625 per share (which has been adjusted to HK$1.25 per share due to the Capital Reorganisation, as further detailed in note 15(f)).

Upon initial recognition, the 2009 CN were designated as financial liabilities at fair value through profit or loss with gains or losses on changes in fair value recognised in profit or loss in the period in which they arise. The unaudited fair value loss of the 2009 CN for the six months ended 30 June 2010 was HK$622,370,000.

14. Convertible Notes *(continued)*

On 31 December 2010, as agreed with the noteholders and approved by the independent shareholders, certain terms of the 2009 CN were amended such that its conversion options would entitle its holder to convert the 2009 CN into a fixed number of equity instruments at a fixed conversion price (the "Amended 2009 CN"). Accordingly, the component of the Amended 2009 CN that exhibits characteristics of a liability is recognised as a liability on the amortised cost basis until extinguished on conversion or redemption in the statement of financial position and the conversion option is accounted for as an equity component and included in the shareholders' equity as "Equity component of convertible notes". The carrying amount of the conversion option recognised in shareholders' equity is not remeasured in subsequent years.

The movements of the carrying amount and the principal amount of the 2009 CN and Amended 2009 CN are as follows:

		30 June 2011		31 December 2010	
	Notes	**Carrying amount HK$'000 (unaudited)**	**Principal amount HK$'000 (unaudited)**	Carrying amount HK$'000 (audited)	Principal amount HK$'000 (audited)
At beginning of year/period		**466,288**	**665,000**	2,411,000	1,522,250
Converted into ordinary shares of the Company during the year/period	(a)	**(178,406)**	**(249,545)**	(1,838,742)	(857,250)
Changes in fair value		**—**	**—**	1,133,144	—
Derecognition of 2009 CN		**—**	**—**	(1,705,402)	(665,000)
Issue of Amended 2009 CN		**—**	**—**	466,288	665,000
Imputed interest expense	5	**16,693**	**—**	—	—
At end of year/period		**304,575**	**415,455**	466,288	665,000

Note (a): During the six months ended 30 June 2011, Amended 2009 CN with principal amount of HK$237,045,000 and HK$12,500,000 were converted into ordinary shares of the Company at conversion prices of HK$0.0625 and HK$1.25 (as adjusted by the Capital Reorganisation, further details set out in note 15(f)), respectively, resulted in issuance of 3,792,720,000 ordinary shares of a par value of HK$0.01 each and 10,000,000 ordinary shares of a par value of HK$0.1 each of the Company, respectively.

15. Share Capital

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Authorised:		
15,000,000,000 (2010: 300,000,000,000) ordinary shares of HK$0.1 (2010: HK$0.01) each	**1,500,000**	3,000,000
Issued and fully paid:		
1,329,287,168 (2010: 22,629,743,370) ordinary shares of HK$0.1 (2010: HK$0.01) each	**132,929**	226,298

A summary of the transactions during the period/year with reference to the movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010		7,733,743,370	77,338	1,133,198	1,210,536
Issue of new shares	(a)	1,000,000,000	10,000	195,000	205,000
Conversion of 2010 CB	(b)	180,000,000	1,800	36,073	37,873
Conversion of 2009 CN	(c)	13,716,000,000	137,160	1,701,582	1,838,742
Share issue expenses		—	—	(238)	(238)
At 31 December 2010 and 1 January 2011 (audited)		22,629,743,370	226,298	3,065,615	3,291,913
Conversion of Amended 2009 CN	(d)	3,802,720,000	38,927	604,464	643,391
Repurchase of shares	(e)	(36,720,000)	(367)	—	(367)
Capital reorganisation	(f)	(25,066,456,202)	(131,929)	131,929	—
Share issue expenses		—	—	(59)	(59)
At 30 June 2011 (unaudited)		1,329,287,168	132,929	3,801,949	3,934,878

15. Share Capital *(continued)*

Notes:

(a) On 30 December 2010, 1,000,000,000 ordinary shares of a par value of HK$0.01 each were issued, at the issue price of HK$0.205 per share, for a total cash consideration, before expenses, of HK$205,000,000.

(b) On 8 November 2010, 180,000,000 ordinary shares of a par value of HK$0.01 each were issued upon partial conversion of the 2010 CB with a principal amount of HK$36,000,000. The aggregate value of the derivative and liability components of such 2010 CB was HK$37,873,000 (note 13), and the excess of such amount over the par value of HK$1,800,000 for the ordinary shares issued, which amounted to HK$36,073,000, was credited to the share premium account of the Company.

(c) During the year ended 31 December 2010, 13,716,000,000 ordinary shares of a par value of HK$0.01 each were issued upon partial conversion of the 2009 CN with a principal amount of HK$857,250,000. The fair value of such convertible notes was HK$1,838,742,000, and the excess of such amount over the aggregate par value of HK$137,160,000 for the ordinary shares issued, which amounted to HK$1,701,582,000, was credited to the share premium account of the Company.

(d) During the period, 3,792,720,000 ordinary shares of a par value of HK$0.01 each and 10,000,000 ordinary shares of a par value of HK$0.1 each were issued upon partial conversion of the Amended 2009 CN with aggregate principal amount of HK$249,545,000. The carrying amount of such convertible notes (including liability component of HK$178,406,000 and equity component of HK$464,985,000) was HK$643,391,000, and the excess of the carrying amount of such convertible notes over the aggregate par value of HK$38,927,000 for the ordinary shares issued, which amounted to HK$604,464,000, was credited to the share premium account of the Company.

(e) During the period, 36,720,000 ordinary shares of the Company of a par value of HK$0.01 each were repurchased on The Stock Exchange of Hong Kong Limited at a total consideration, before expenses, of HK$4,293,000.

Details of the shares repurchased are as follows:

Month/year	**Number of shares in repurchased**	**Highest prices paid per share** HK$	**Lowest prices paid per share** HK$	**Aggregate price paid** HK$
June 2011	36,720,000	0.1186	0.1120	4,293,000

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HK$367,000 was transferred to the capital redemption reserve. The premium paid for the repurchase of the shares, including expenses incurred for repurchase, of approximately HK$4,317,000 was charged to the accumulated losses.

15. Share Capital *(continued)*

Notes:

(f) On 24 June 2011, the shareholders of the Company approved a proposed capital reorganisation (the "Capital Reorganisation") which comprised:

(i) the share consolidation, i.e. consolidation of 20 existing shares of par value of HK$0.01 each into one consolidated share of par value of HK$0.20;

(ii) the capital reduction, i.e. reduction of the par value of the consolidated shares of HK$0.20 each to HK$0.10 each by cancelling HK$0.10 of the par value in each consolidated share. The paid up capital so cancelled is transferred to the share premium account of the Company; and

(iii) reduction of share premium account, i.e. reduction of share premium account by HK$2,953,243,000, being a sum representing the accumulated losses of the Company as at 31 December 2010 and the application of the credit arising from such reduction to eliminate the accumulated losses.

Details of the Capital Reorganisation were set out in the announcement dated 12 May 2011 and the circular dated 25 May 2011. The share consolidation and capital reduction were effective on 27 June 2011 when the authorised and issued capital consisted of 300,000,000,000 and 26,385,743,370 ordinary shares of HK$0.01 each, respectively, were reduced by 285,000,000,000 and 25,066,456,202 ordinary shares, respectively. Furthermore, upon completion of the capital reduction, an aggregate of paid-up capital of HK$131,929,000 was cancelled and transferred to the share premium account of the Company. The share consolidation and capital reduction were duly registered in the Companies Registry of Hong Kong on 7 July 2011.

The reduction of share premium account requires court approval. The application is in progress and is not yet effective as at the date of approval of these interim financial statements.

16. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme were disclosed in the Company's 2010 annual report. There were no movements during the period.

The exercise price (which has been adjusted to reflect the effect of the Capital Reorganisation, further details set out in note 15(f)) and exercise period of the share options outstanding as at 1 January 2011 and 30 June 2011 are as follows:

Number of options				
Directors	**Employees**	**Total**	**Exercise price** HK$ per share	**Exercise period**
—	616,000	616,000	2.5	29 September 2008 to 28 September 2013
2,875,000	5,125,000	8,000,000	4.96	12 May 2011 to 11 May 2013
2,875,000	5,125,000	8,000,000	4.96	12 May 2012 to 11 May 2013
1,500,000	—	1,500,000	4.96	26 August 2011 to 25 August 2013
1,500,000	—	1,500,000	4.96	26 August 2012 to 25 August 2013
2,500,000	—	2,500,000	4.96	10 November 2011 to 9 November 2013
2,500,000	—	2,500,000	4.96	10 November 2012 to 9 November 2013
13,750,000	10,866,000	24,616,000		

16. Share Option Scheme *(continued)*

During the period, equity-settled share-based payment expenses amounted to HK$20,254,000 (Period ended 30 June 2010: HK$4,538,000) was recognised in profit or loss.

At the end of the reporting period, the Company had 24,616,000 (31 December 2010: 24,616,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 24,616,000 additional ordinary shares of the Company and additional share capital of HK$2,461,600 and share premium of HK$118,118,400 (before issue expenses).

At the date of approval of these interim financial statements, the Company had 24,616,000 share options outstanding under the Scheme, which represented approximately 1.72% of the Company's shares in issue as at that date.

17. Operating Lease Commitments

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

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Within one year	**2,729**	2,663
In the second to the fifth years, inclusive	**1,553**	3,356
	4,282	6,019

18. Capital Commitments

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

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Authorised, but not provided for	**38,087**	33,859

19. Events After the Reporting Period

(a) On 25 July 2011, Hengtai entered into a sale and purchase agreement with an independent third party, pursuant to which, Hengtai had conditionally agreed to acquire the entire equity interest of Inner Mongolia Liaoyuan Coal Mining Company Limited, for a cash consideration of RMB500 million (equivalent to approximately HK$602.41 million) (subject to adjustment). The acquisition was completed on 11 August 2011. Details of the acquisition were set out in the announcement of the Company dated 25 July 2011. Since the transaction was effected shortly before the date of approval of these unaudited interim financial statements, the Group is not yet in a position to disclose any financial impact of this transaction on the Group.

(b) In July 2011, the Company's convertible notes with an aggregate principal amount of HK$126,250,000 were converted into 101,000,000 ordinary shares of the Company at a conversion price of HK$1.25 per ordinary share.

(c) In July 2011, 1,558,000 ordinary shares of the Company were repurchased at a total consideration of, before expenses, of approximately HK$2,985,000.

Interim Dividends

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2011 (2010: Nil).

Management Discussion And Analysis

Business Review

Coal mining business

Year 2011 is the second remarkable year since the Group had transformed its core business into coal mining. The significant increases in revenue and turnaround profit were mainly contributed by the Company's subsidiary in Inner Mongolia, Eerduosi Hengtai Coal Co., Ltd ("Hengtai").

During the period ended 30 June 2011, actual coal output of Hengtai reached 2.2 million tonnes, up 47% from 1.5 million tonnes in the same period last year. All three underground working faces of one of the mines of Hengtai have been put into operation and the aggregate designed capacity of them can reach 6.0 million tonnes per annum. It is expected that the production rate of Hengtai will continue to ramp up steadily.

Horizontal integration

In August 2011, the Group successfully acquired 100% equity interest in Inner Mongolia Liaoyuan Coal Mining Co. Ltd ("Liaoyuan"). The acquisition adds not less than 15 million tonnes of high quality thermal coal resources and 0.9 million tonnes of annual production capacity to the Group. The Group will continue to develop and invest in Hengtai and Liaoyuan coal mines, and in the meantime seek new acquisition or consolidation targets in order to enhance the Group's market penetration in the region.

Vertical alliances

During the period, the Group formed strategic alliances with China Railway Materials Energy Co., Ltd ("China Railway Energy") and CITIC Trust Co. Ltd ("CITIC Trust"), respectively. The Group and China Railway Energy entered into a strategic framework agreement to exploit and invest in the development of energy and coal-related logistics, as well as acquisition of the railway station and coal shipping logistics park. On the other hand, the Group has, together with CITIC Trust, entered into a joint venture agreement to jointly explore the areas including development of high-quality coal mine, mergers and acquisitions of coal resources, investment in the field of clean coal and clean energy, energy saving and comprehensive utilization of coal. It is believed that the partnership with these major stated-owned enterprises will add significant values to the profile of the Group's coal mine business in China.

Business Review *(continued)*

Production safety

Realizing the importance of production safety in coal production and operation, the Group has adopted a series of measures to ensure production safety in coal mining. During the course of construction, the Group has complied with the stringent requirements on production safety, assuring safety of facilities including ventilation, drainage and supportive roof structure, etc. in the coal mines. In addition, there are comprehensive surveillance and monitoring systems in important sites of the mines. A scientific and efficient code of practice in relation to production safety is formulated to ensure that regulations are in place for the production and operation of coal mines. Intensive trainings on production safety are provided to all staff to make sure they could understand the knowledge and master the relevant techniques. Through all said measures, no obituary and serious injury has been recorded by the Group ever since the commencement of operation of the coal mines. The Company formed the Coal Mine Production Safety and Technical Committee in July 2010 and established the Coal Mine Production Safety and Technical Office in Taiyuan, Shanxi Province. Experienced coal mine professionals were recruited to provide guidance and supervision with respect to areas such as production safety of the coal mines of the Company in order to further enhance the overall production safety level of coal mines and guarantee their safe operation.

Environmental protection

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

Results Review

The Group recorded a total revenue of approximately HK$532 million (2010: HK$374 million) representing a significant increase of approximately 42% compared with the same period last year. Gross profit increased from approximately HK$189 million in the same period last year to approximately HK$244 million, representing an increase of approximately 29%. The significant increases in revenue and gross profit were mainly attributable to increase in coal output by Hengtai coal mine during the period. The average selling price of raw coal at mine mouth was approximately RMB206 per tonne.

Other income and gains was approximately HK$46.8 million (2010: HK$2.6 million) during the period. The increase was mainly due to a fair value gain on derivative component of the 2010 CB amounting to approximately HK$35 million and other income of HK$10 million arising from the termination of subscription agreements as detailed in "Liquidity and Financial Review" section.

Results Review *(continued)*

Selling and distribution costs and administrative expenses were approximately HK$1.7 million and HK$64 million respectively during the period compared with approximately HK$3 million and HK$43 million respectively for the same period last year. Equity-settled share option expenses in relation to grant of share options to directors and employees of the Group increased from approximately HK$4.5 million to approximately HK$20.2 million, which led to significant increase in administrative expenses during the period. Such expenses do not have any impact on the cashflow in operation.

Finance costs were approximately HK$77.8 million (2010: Nil) during the period, which was mainly attributable to interest expenses for loans in the PRC amounting to approximately HK$35.3 million (after capitalisation as property, plant and equipment of approximately HK$13 million); and imputed interests of the Amended 2009 CN and the 2010 CB amounting to an aggregate of approximately HK$40.9 million. The aforesaid imputed interests were provided solely for accounting purpose and there is no cash outflow in this regard.

Income tax expenses were approximately HK$43.9 million (2010: HK$37.6 million) during the period. It represented provision for taxation for operating profit generated from Hengtai of approximately HK$73.2 million (2010: HK$52.4 million) and deferred tax credit of approximately HK$29.3 million (2010: HK$14.8 million) resulted from the reduction in deferred tax liability. No provision for Hong Kong profits tax has been made during the period.

Profit attributable to owners of the Company was approximately HK$94 million (2010: loss of HK$522 million) during the period. The turnaround was mainly attributable to increase in revenue and gross profit from coal mining business and that no fair value loss of 2009 CN (2010: approximately HK$622 million) was recognised in the income statement during the period after the amendments to the terms of the 2009 CN effective from 31 December 2010.

Future Prospects

During the first half of the year, major downstream industries including thermal power, steel and building materials recorded rapid growth. The increasing activities of indemnificatory apartments and the continued rebound in energy-intensive industries would stimulate coal demand and keep it thriving. In the second half of the year, the coal demand in China is expected to reach its peak. The demand for electricity in Central and Eastern China may grow dramatically with the increased use of air conditioners. Particularly, the lack of sufficient hydroelectric power has led to the growth in thermal power usage, hence, the demand for thermal coal. With the stable economic growth in China, the demand for coal in the coming years may continue to soar and stimulate the coal price, which benefits the Group in terms of pricing. In terms of coal supply, the resources consolidation may step into a new round of implementation phase in Inner Mongolia and other provinces, which may cause tighter supply in the second half of the year. The increasing demand for high-quality and stable supply of coal is expected to benefit the Group's future development in the coal industry.

Future Prospects *(continued)*

With the concerted effort of the Group and its employees, King Stone Energy's business in Inner Mongolia is on the right track. The production capacity during the first half of the year has increased significantly compared to the same period last year. The Group also successfully acquired Liaoyuan Coal Mine, which is close to the Group's Hengtai Coal Mine. After the acquisition, the Group's production capacity is further enhanced. This acquisition is a first step of King Stone Energy's business expansion in Inner Mongolia. Through continuous acquisition and business development, the Group aims to strengthen its market share in Inner Mongolia and strives to play a major role in the resources consolidation and to have more opportunities to expand and integrate other smaller coal mines in Inner Mongolia.

In addition to the existing coal mining business, King Stone Energy will strengthen its vertical industrial chain by developing upstream and downstream businesses. The alliance with China Railway Energy will ultimately benefit the Group by streamlining the transportation logistic cost and hence enhancing margins. In addition, CITIC Trust will provide full range of financial support to the Group in acquiring coal mine resources and develop other environmentally clean energies. The cooperation opportunities with two well-known enterprises are the results of powerful business network and strategic management deployment of the team. It will absolutely be beneficial to the Group's future development in both upstream and downstream businesses.

In terms of horizontal business development, the Group will continue to strengthen its development capability, increase the production capacity of existing coal mines, seek for suitable merger and acquisition opportunities in neighboring areas, and improve the cost-effectiveness in management, operation and construction. At the same time, the Group may also seek for more potential acquisition opportunities in other parts of China, including Shanxi Province, Guizhou Province and Inner Mongolia, in order to diversify its products, including coking coal and anthracite coal.

King Stone Energy's mining business develops well and the strategic deployment is also taking effort. The Company will seize the opportunity, as well as seek for strategic partners to enhance our competitiveness and expand the revenue sources, in order to become a leading diversified energy player. Experienced management team, business networks and established sales channel, as well as synergies created with our strategic partners, may help King Stone Energy to stand out in the coal industry. We shall keep up our efforts and conscientiously carry out our duties, to become a diversified coal mining company and bring great returns to our shareholders.

Liquidity and Financial Review

The Group mainly financed its day-to-day operations by internally generated cash flow and banking facilities during the period. As at 30 June 2011, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.74 : 1, compared with 0.88 : 1 as at 31 December 2010.

Liquidity and Financial Review *(continued)*

As at 30 June 2011, the cash and cash equivalents of the Group were approximately HK$635.3 million (31 December 2010: HK$625.2 million). During the period, the Group recorded a net cash inflow generated from its operating activities of approximately HK$482.4 million (2010: net cash inflow of HK$97.1 million). This reflects the significant cash flow generated from the coal business.

As at 30 June 2011, the Group had outstanding interest-bearing bank borrowings amounted to approximately HK$1,324.6 million (31 December 2010: HK$1,294.1 million). Of the Group's interest-bearing bank borrowings, 32% and 68% respectively were repayable within one year and in the third to the fifth years, inclusive. All bank loans of the Group were denominated in Renminbi. As at 30 June 2011, bank loans of approximately HK$963.3 million (31 December 2010: HK$941.2 million) were interest-bearing with floating interest rates and bank loans of approximately HK$361.3 million (31 December 2010: HK$352.9 million) were charged at a rate of 6.31% (2010: 5.31%) per annum.

As at 30 June 2011, the Group had outstanding zero coupon redeemable convertible notes amounting to approximately HK$304.6 million (2010: HK$466.3 million) and 2% one-year convertible bonds amounting to approximately HK$146 million (2010: HK$121.9 million). The zero coupon convertible notes, which have a 5-year term from 21 December 2009, are redeemable in whole or in part at face value by the Company at any time after 3 years from the issuance date.

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

On 30 December 2010, the Company and each of Chinarise Financial Limited and Success Business Holdings Limited entered into the subscription agreements pursuant to which the Company has conditionally agreed to allot and issue, and the subscribers have conditionally agreed to subscribe for 1,000,000,000 shares, at the price of HK$0.21 per share (before adjustment for the Capital Reorganisation). The subscriptions were terminated on 30 June 2011 and the aggregate deposits of HK$10 million received in relation to the subscriptions were retained by the Company for its sole benefit pursuant to the subscription agreements, and an income of HK$10 million was recognised in the income statement during the period accordingly.

Gearing Ratio

The gearing ratio of the Group, measured as net debt, which represents trade and bills payables, other payables and accruals, liability component of convertible bonds and interest-bearing bank borrowings, less cash and cash equivalents to the total capital, which represents convertible notes and equity attributable to owners of the Company, was 0.58 as at 30 June 2011, as compared to 0.55 as at 31 December 2010.

Significant Investments, Material Acquisitions and Disposals

Proposed acquisition of Triumph Fund A1 Limited ("Proposed Acquisition")

On 26 April 2010, the Company and All Aces Investments Limited (the "Vendor"), an independent third party, entered into the memorandum of understanding in respect of the proposed acquisition of two coal mines situated in Shanxi Province. On 9 June 2010, Jetway Group Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, as the purchaser, and the Vendor entered into a framework agreement ("Framework Agreement") in respect of the proposed acquisition of Triumph Fund A1 Limited (the "Target Company").

The Target Company, through its subsidiaries, currently holds approximately 93.1% of the equity interest in 山西山陰芍藥花煤業有限公司 (Shanxi Shanyin Shaoyaohua Coal Co., Ltd, "Shoyaohua") and will acquire approximately 98% of the equity interest in 山西朔州山陰西宜煤業有限公司 (Shanxi Shuozhou Shanyin Youyi Coal Co., Ltd, "Youyi"). The principal assets of Shaoyaohua and Youyi are coal mines, which produce long flame coal and gas coal in Shouzhou City, Shanxi Province, having designed capacity of 3.5 million tonnes and 3 million tonnes per annum respectively. The aggregate resources and reserves of these two coal mines are 202 million tonnes and 89 million tonnes under the JORC code respectively.

On 27 September 2010, the Purchaser, the Vendor and Mr. Liu Yong, who is interested in 100% of the Vendor, entered into a deposit agreement pursuant to which the Purchaser agreed to pay the Vendor a refundable earnest money ("Earnest money") of HK$180,000,000 in cash in relation to the Proposed Acquisition.

Further to the Framework Agreement, on 21 October 2010, the Vendor, the Purchaser and the Company entered into the acquisition agreement ("Acquisition Agreement") pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase, 30,000 issued and fully-paid up shares of the Target Company, representing 60% of the issued share capital of the Target Company at the aggregate consideration of HK$3,540,000,000 (subject to adjustments), which would be payable in following manner:

(i) as to HK$180,000,000 in cash as refundable Earnest money paid on 27 September 2010 (see above);

(ii) as to HK$1,020,024,000 in cash upon completion of the Proposed Acquisition ("Acquisition Completion");

(iii) as to HK$949,440,000 by way of allotment and issue of 237,360,000 consideration shares at a price of HK$4 per share upon Acquisition Completion;

(iv) as to HK$370,566,000 by way of issue of the 1st tranche convertible bonds at a conversion price of HK$4.2 per share (subject to adjustments) upon Acquisition Completion; and

(v) as to HK$1,019,970,000 (subject to adjustments) by way of issue of the 2nd tranche convertible bonds at a conversion price of HK$4.2 per share (subject to adjustments) on the fifth business day after the date of issue of the audited accounts of Shoyaohua and Youyi for the years ending 31 December 2011 ("First Distribution Day") and 31 December 2012 ("Second Distribution Day") (as the case may be), respectively.

Significant Investments, Material Acquisitions and Disposals *(continued)*

Proposed acquisition of Triumph Fund A1 Limited ("Proposed Acquisition") *(continued)*

In addition to the Acquisition Agreement, on 21 October 2010, the Vendor, the Purchaser and the Company entered into the call option agreement ("Call Option Agreement") in respect of the granting of the call option by the Vendor to the Purchaser pursuant to which the Purchaser will be entitled to acquire the remaining 40% of the issued share capital of the Target Company, for the consideration of HK$2,360,000,000 (subject to adjustments) within nine months from the date of the Acquisition Completion by giving the call option notice to the Vendor. In the event that the call option has been exercised to purchase any remaining shareholding in the Target Company, the consideration will be adjusted on a pro rata basis with reference to the number of shares in respect of which the call option is exercised. To the extent that the Purchaser exercises the call option in full, the call option consideration shall be payable by the Purchaser to the Vendor as to:

(i) HK$800,016,000 in cash upon completion of the Call Option Agreement;

(ii) HK$632,960,000 by way of allotment and issue of 158,240,000 call option consideration shares at a price of HK$4 per share upon completion of the Call Option Agreement;

(iii) HK$247,044,000 by way of issue of the 3rd tranche convertible bonds at a conversion price of HK$4.2 per share (subject to adjustments) upon completion of the Call Option Agreement; and

(iv) HK$679,980,000 (subject to adjustments) by way of issue of the 4th tranche convertible bonds at a conversion price of HK$4.2 per share (subject to adjustments) by the Company on the First Distribution Day and the Second Distribution Day (as the case may be), respectively.

In connection with the Proposed Acquisition, the Vendor has guaranteed the audited net profit after tax of Shaoyaohua and Youyi for the two years from 1 January 2011 to 31 December 2012 of HK$1,700 million in aggregate (excluding certain expenses and costs). Adjustments will be made to the 2nd tranche and the 4th tranche convertible bonds in accordance with the corresponding adjustment mechanisms (as stated in the Acquisition Agreement and Call Option Agreement) which are in line with the amount of profit guarantee achieved by Shaoyaohua and Youyi.

In the event that the conditions precedent are not fulfilled (or waived) on or before 31 March 2011, or such later date as the parties to the Acquisition Agreement may agree in writing, the Acquisition Agreement shall lapse.

On 31 December 2010, the Vendor, the Purchaser and the Company entered into the supplemental agreement to the Acquisition Agreement (the "Supplemental Agreement") to amend certain terms of the Acquisition Agreement including, among others, as of the date of the Acquisition Completion, the total amounts of all liabilities and capital commitments as shown in the management accounts (prepared in accordance with Hong Kong Financial Reporting Standards) of each of the Target Company and its subsidiaries shall not exceed RMB300 million.

Significant Investments, Material Acquisitions and Disposals *(continued)*

Proposed acquisition of Triumph Fund A1 Limited ("Proposed Acquisition") *(continued)*

Details of the Proposed Acquisition were set out in the announcements of the Company dated 26 April 2010, 9 June 2010, 4 November 2010 and 31 December 2010 and the circular of the Company dated 9 February 2011. The acquisition was approved by the shareholders on 25 February 2011.

As disclosed in the announcements dated 31 March 2011, 29 April 2011, 31 May 2011 and 29 July 2011, the long stop date of the Proposed Acquisition has been extended to 31 August 2011. The acquisition is not yet completed as at the date of approval of these financial statements.

Capital Reorganisation

On 24 June 2011, the shareholders of the Company approved a proposed capital reorganisation (the "Capital Reorganisation") which comprised:

(i) the share consolidation, i.e. consolidation of 20 existing shares of par value of HK$0.01 each into one consolidated share of par value of HK$0.20;

(ii) the capital reduction, i.e. reduction of the par value of the consolidated shares of HK$0.20 each to HK$0.10 each by cancelling HK$0.10 of the par value in each consolidated share. The paid up capital so cancelled is transferred to the share premium account of the Company; and

(iii) reduction of share premium account, i.e. reduction of share premium account by HK$2,953,243,000, being a sum representing the accumulated losses of the Company as at 31 December 2010 and the application of the credit arising from such reduction to eliminate the accumulated losses.

Details of the Capital Reorganisation were set out in the announcement dated 12 May 2011 and the circular dated 25 May 2011. The share consolidation and capital reduction were effective on 27 June 2011 when the authorised and issued capital consisted of 300,000,000,000 and 26,385,743,370 ordinary shares of HK$0.01 each, respectively, were reduced by 285,000,000,000 and 25,066,456,202 ordinary shares, respectively. Furthermore, upon completion of the capital reduction, an aggregate of paid-up capital of HK$131,929,000 was cancelled and transferred to the share premium account of the Company. The share consolidation and capital reduction were duly registered in the Companies Registry of Hong Kong on 7 July 2011.

The reduction of share premium account requires court approval. The application is in progress and is not yet effective as at the date of approval of these interim financial statements.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 30 June 2011, the capital commitments of the Group were approximately HK$38 million. The capital commitments were mainly related to purchase machineries for the operation of coal mines.

As at 30 June 2011, the bank loans of approximately HK$903.2 million were secured by the Group's mining rights and guarantees given by a former shareholder of Triumph Fund A Limited and a former director of Hengtai.

As at 30 June 2011, bank balances of approximately HK$0.4 million were pledged for bills issued by the Group.

Save as disclosed above, the Group had no other assets pledged as at 30 June 2011.

As at 30 June 2011, there was no material contingent liability of the Group.

Human Resources and Share Option Scheme

As at 30 June 2011, the Group had 314 (31 December 2010: 307) full-time employees. The total staff cost for the six months ended 30 June 2011 was approximately HK$34.5 million (2010: HK$54.9 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 30 June 2011, the total outstanding share options amounted to 24,616,000 shares. No share options were granted or exercised during the period.

Directors' Interests in Shares and Underlying Shares

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

As at 30 June 2011, the following directors or chief executive of the Company had or were deemed to have an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules (the "Model Code"):

Directors' Interests in Shares and Underlying Shares *(continued)*

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

Long position in the shares and underlying shares of the Company:

Name of Director	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Mr. Wang Da Yong (notes 1, 2)	Through controlled corporation/spouse/ beneficial owner	215,500,000	5,000,000	220,500,000	16.59%
Mr. Tian Wenwei (note 2)	Beneficial owner	–	3,750,000	3,750,000	0.28%
Mr. Wang Tongtian (note 2)	Beneficial owner	–	1,500,000	1,500,000	0.11%
Mr. Li Yi (note 2)	Beneficial owner	–	1,000,000	1,000,000	0.08%
Mr. Su Bin (note 2)	Beneficial owner	–	1,000,000	1,000,000	0.08%
Mr. Jacobsen William Keith (note 2)	Beneficial owner	–	500,000	500,000	0.04%
Mr. Cao Kuangyu (note 2)	Beneficial owner	–	500,000	500,000	0.04%
Mr. Chiu Sui Keung (note 2)	Beneficial owner	–	500,000	500,000	0.04%

Notes:

1. The shares are held by Mr. Wang Da Yong under the below capacities:

    (a) 125,000,000 shares are held by Joint Ascent Limited which is held as to 80% and 20% by Mr. Wang Da Yong and Mr. Tian Wenwei respectively.

    (b) 90,000,000 shares are held by China Coal and Coke Investment Holding Company Limited which is wholly owned by Sino Bridge Investments Limited, a company wholly owned by Mr. Wang Da Yong.

    (c) 500,000 shares are held by Yuan Hong, the spouse of Mr. Wang Da Yong.

Directors' Interests in Shares and Underlying Shares *(continued)*

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

Notes: *(continued)*

2. Options were granted to Mr. Tian Wenwei and Mr. Li Yi under the share option scheme of the Company dated 28 May 2002 (the "Scheme") which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 12 May 2011 to 11 May 2013.

   1,000,000 options and 500,000 options were granted to Mr. Wang Tongtian under the Scheme which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 12 May 2011 to 11 May 2013 and a period of two years commencing from and including 26 August 2011 to 25 August 2013 respectively.

   Options were granted to Mr. Su Bin, Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung under the Scheme which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 26 August 2011 to 25 August 2013.

   Options were granted to Mr. Wang Da Yong under the Scheme which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 10 November 2011 to 9 November 2013.

   The respective number of underlying shares which they have interest represent the number of shares which would be allotted and issued to them upon the exercise in full of the options granted.

   The above number of options and exercise price have been adjusted to reflect the effect of the Capital Reorganisation.

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

(b) Directors' rights to acquire shares

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. Further details of the share options granted to directors are set out in part (a) above.

Directors' Interests in Shares and Underlying Shares *(continued)*

(b) Directors' rights to acquire shares *(continued)*

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

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the directors and the chief executive of the Company, as at 30 June 2011, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Total interests in shares/underlying shares	Approximate percentage of the Company's issued share capital
All Aces Investments Limited (note 1)	Beneficial owner	947,400,000(L)	71.27%
Liu Yong (note 1)	Through controlled corporation	947,400,000(L)	71.27%
Bank of America Corporation	Through controlled corporation	220,750,232(L) 47,625,000(S)	16.61% 3.58%
Zhao Ming (note 2)	Beneficial owner	214,326,759(L)	16.12%
Joint Ascent Limited (note 3)	Beneficial owner	125,000,000(L)	9.40%
Chrism Investments Limited	Beneficial owner	93,250,000(L)	7.02%
Sino Bridge Investments Limited (note 4)	Through controlled corporation	90,000,000(L)	6.77%
China Coal and Coke Investment Holding Company Limited (note 4)	Beneficial owner	90,000,000(L)	6.77%

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO *(continued)*

Notes:

1. All Aces Investments Limited is wholly owned by Mr. Liu Yong.

2. The long position is held by Mr. Zhao Ming under the below capacities:

   (a) Mr. Zhao holds 2,076,759 shares and convertible notes which entitle the holder thereof to convert for 156,000,000 shares at the current conversion price of HK$1.25 per share (subject to adjustments).

   (b) Future Wise Limited, which is wholly owned by Mr. Zhao, has a long position of 56,250,000 shares.

3. Joint Ascent Limited is held as to 80% and 20% by Mr. Wang Da Yong and Mr. Tian Wenwei respectively.

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

Remarks: (L): Long position (S): Short position

The above number of shares has been adjusted to reflect the effect of the Capital Reorganisation.

Save as disclosed above, as at 30 June 2011, the directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Purchase, Redemption or Sale of Securities

During the period, the Company repurchased 36,720,000 shares of par value of HK$0.01 each on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Total paid HK$
June 2011	36,720,000	0.1186	0.1120	4,293,000

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2011.

Code on Corporate Governance Practices

In the opinion of the directors, save as the deviation of codes A.2.1 and A.4.1 of the Code on Corporate Governance Practice (the "Code"), the Company has complied with the Code as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2011.

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

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

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

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions. Having made specific enquiry of all directors, all directors of the Company have complied with required standard set out in the Model Code throughout the six months ended 30 June 2011.

Review by Audit Committee

The 2011 interim report is unaudited, but has been reviewed by the Audit Committee which comprises the three Independent Non-Executive Directors of the Company. The Audit Committee was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

On behalf of the Board
Wang Da Yong
Chairman

Hong Kong, 23 August 2011