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)

2012 Interim Report

Corporate Information

Board of Directors

Executive Directors

Mr. Wang Da Yong *(Chairman)*
Mr. Tian Wenwei
Mr. Wang Tongtian
Mr. Chen Marlon Ray

Non-Executive Directors

Mr. Wong Chun Hung
Mr. Seah Ang

Independent Non-Executive Directors

Mr. Chiu Sui Keung
Mr. Li Peiming
Mr. Lee Chi Hwa, Joshua
Mr. Lam Ka Wai, Graham

Audit Committee

Mr. Chiu Sui Keung *(Chairman)*
Mr. Li Peiming
Mr. Lam Ka Wai, Graham

Remuneration Committee

Mr. Chiu Sui Keung *(Chairman)*
Mr. Li Peiming
Mr. Wang Da Yong
Mr. Lam Ka Wai, Graham

Nomination Committee

Mr. Li Peiming *(Chairman)*
Mr. Chiu Sui Keung
Mr. Lee Chi Hwa, Joshua
Mr. Lam Ka Wai, Graham

Strategy and Investment Committee

Mr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian

Advisory Committee

Mr. Wang Senhao *(Chairman)*
Mr. Zhang Changsheng
Mr. Li Yi
Mr. Su Bin

Coal Mine Production Safety and Technical Committee

Mr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian

Authorised Representatives

Mr. Wang Da Yong
Mr. Tian Wenwei

Company Secretary

Mr. Lee Tao Wai

Auditors

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Legal Advisers

Michael Li & Co
19/F, Prosperity Tower
39 Queen's Road Central
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

Operating Mines

Hengtai Coal Mine

	Resources (million tonnes)	Reserves (million tonnes)
Total resources/reserves (JORC compliant)	203.87	71.86
Less:		
Actual output in 2010	4.00	4.00
Actual output in 2011	3.60	3.60
Actual output in 1H 2012	1.40	1.40
Resources/reserves as at 30 June 2012	194.87	62.86

Note: The resources/reserves as at 30 June 2012 are derived from total resources/reserves extracted from technical report issued by John T. Boyd Company dated 18 November 2009 after deduction of actual output up to 30 June 2012 based on Hengtai's record.

Liaoyuan Coal Mine

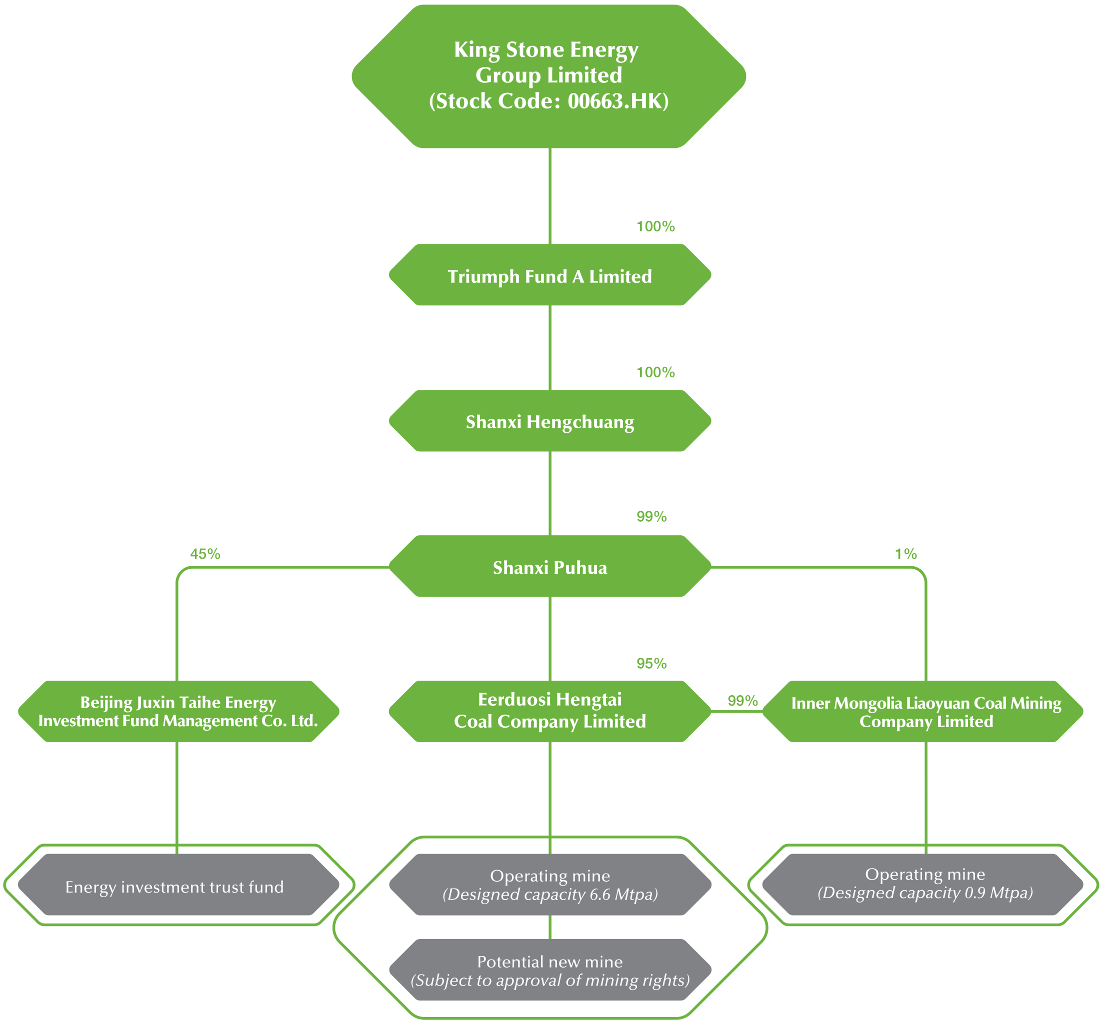
	Resources (million tonnes)
Total resources as at 31 December 2011 (JORC equivalent)	15.75
Less:	
Actual output in 1H 2012	0.36
Resources as at 30 June 2012	15.39

Note: The resources as at 30 June 2012 are derived from resources as at 31 December 2011 extracted from technical report issued by Roma Oil and Mining Associated Limited dated 30 March 2012 after deduction of actual output up to 30 June 2012 based on Liaoyuan's record.

Capital Expenditure

The capital expenditure for development and mining production activities was approximately HK$226 million (31 December 2011: HK$161 million) during the period.

Group Structure



The unaudited consolidated results of King Stone Energy Group Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2012 with comparative figures for the corresponding period in 2011 are as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June 2012 HK$'000 (unaudited)	 2011 HK$'000 (unaudited)
REVENUE	4	396,170	532,202
Cost of sales		(356,835)	(288,698)
Gross profit		39,335	243,504
Other income and gains		32,470	46,834
Selling and distribution costs		(4,063)	(1,664)
Administrative expenses		(52,534)	(64,056)
Other expenses		(855,734)	—
Finance costs	5	(63,901)	(77,787)
Share of profit of a jointly-controlled entity		2,711	—
Profit/(loss) before income tax	6	(901,716)	146,831
Income tax	7	180,527	(43,928)
Profit/(loss) for the period		(721,189)	102,903
Other comprehensive income/(loss) — exchange differences on translation of foreign operations		(22,683)	54,201
Total comprehensive income/(loss) for the period		(743,872)	157,104
Profit/(loss) for the period attributable to:			
Owners of the Company		(680,196)	94,098
Non-controlling interests		(40,993)	8,805
		(721,189)	102,903
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		(701,580)	145,082
Non-controlling interests		(42,292)	12,022
		(743,872)	157,104
Earnings/(loss) per share attributable to ordinary equity holders of the Company	8		
Basic		(HK$0.476)	HK$0.078
Diluted		(HK$0.476)	HK$0.064

Condensed Consolidated Statement of Financial Position

As at 30 June 2012 and 31 December 2011

	Notes	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,907,058**	2,151,176
Prepaid land premiums		**14,713**	15,080
Mining rights		**2,463,486**	2,964,936
Investment in a jointly-controlled entity		**19,147**	16,623
Prepayments and deposits		**158,358**	155,964
Total non-current assets		**4,562,762**	5,303,779
CURRENT ASSETS			
Inventories		**12,396**	17,216
Trade and bills receivables	10	**172,396**	117,100
Prepayments, deposits and other receivables		**136,268**	566,144
Tax recoverable		**1,042**	—
Pledged deposits		**2,838**	2,936
Cash and cash equivalents		**44,430**	51,928
Total current assets		**369,370**	755,324
CURRENT LIABILITIES			
Trade and bills payables	11	**93,653**	5,048
Other payables and accruals		**799,636**	1,181,973
Interest-bearing bank borrowings	12	**585,936**	555,075
Tax payable		**253,505**	272,526
Total current liabilities		**1,732,730**	2,014,622
NET CURRENT LIABILITIES		**(1,363,360)**	(1,259,298)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,199,402**	4,044,481

Condensed Consolidated Statement of Financial Position *(continued)*

As at 30 June 2012 and 31 December 2011

	Notes	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		**94,918**	—
Interest-bearing bank borrowings	12	**671,385**	678,425
Convertible notes		**231,880**	221,782
Deferred tax liabilities		**440,941**	646,748
Total non-current liabilities		**1,439,124**	1,546,955
Net assets		**1,760,278**	2,497,526
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**142,873**	142,873
Reserves		**1,539,169**	2,234,125
		1,682,042	2,376,998
Non-controlling interests		**78,236**	120,528
Total equity		**1,760,278**	2,497,526

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 (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	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Retained earnings/ (Accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	142,873	1,166,813*	538,884*	523*	171,900*	55,565*	300,440*	2,376,998	120,528	2,497,526
Loss for the period	—	—	—	—	—	—	(680,196)	(680,196)	(40,993)	(721,189)
Other comprehensive income — exchange differences on translation of foreign operations	—	—	—	—	(21,384)	—	—	(21,384)	(1,299)	(22,683)
Total comprehensive income for the period	—	—	—	—	(21,384)	—	(680,196)	(701,580)	(42,292)	(743,872)
Equity-settled share option arrangement (note 13)	—	—	—	—	—	6,624	—	6,624	—	6,624
At 30 June 2012	142,873	1,166,813*	538,884*	523*	150,516*	62,189*	(379,756)*	1,682,042	78,236	1,760,278

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	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	38,927	604,464	(464,985)	–	–	–	–	178,406	–	178,406
Share issue expense	–	(59)	–	–	–	–	–	(59)	–	(59)
Repurchase of shares	(367)	–	–	367	–	–	–	–	–	–
Share repurchase expenses	–	–	–	–	–	–	(4,317)	(4,317)	–	(4,317)
Capital reorganisation	(131,929)	131,929	–	–	–	–	–	–	–	–
Equity-settled share option arrangement (note 13)	–	–	–	–	–	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

* These reserve accounts comprise the consolidated reserves of HK$1,539,169,000 (31 December 2011: HK$2,234,125,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash flows from operating activities	**149,436**	482,392
Net cash flows used in investing activities	**(177,111)**	(477,568)
Net cash flows from/(used in) financing activities	**20,113**	(4,376)
Net increase/(decrease) in cash and cash equivalents	**(7,562)**	448
Cash and cash equivalents at beginning of period	**51,928**	625,216
Effect of foreign exchange rate changes	**64**	9,649
Cash and cash equivalents at end of period	**44,430**	635,313
Analysis of balances of cash and cash equivalents		
Cash and bank balances other than time deposits	**44,430**	620,240
Time deposits	**—**	15,073
Cash and cash equivalents as stated in the consolidated statement of financial position	**44,430**	635,313

Notes to Condensed Financial Statements

1. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 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$1,363,360,000 as at 30 June 2012. 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) a substantial shareholder of the Company has confirmed his ability and 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; and (3) the directors are also considering/taking other alternatives to monitor and improve the cash flows of the Group including extension of repayment dates of existing bank loans and other financing arrangements.

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 (the "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 2011 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 2011 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 period financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures —Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

2. Changes in Accounting Policies *(continued)*

The adoption of the amended HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these interim financial statements.

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 two individual external customers which contributed to over 10% of the Group's total revenue (Period ended 30 June 2011: three). The revenue generated from sales to each of these customers is set out below:

	For the six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Customer A	**134,410**	81,777
Customer B	**63,457**	*
Customer C	*	283,020
Customer D	*	100,862

* Less than 10% of the Group's total revenue.

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	
	2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Interest on bank and other loans wholly repayable within five years	**53,803**	48,295
Imputed interest of convertible notes	**10,098**	16,693
Imputed interest of convertible bonds	**—**	24,160
Interest on convertible bonds	**—**	1,590
Less: Interest capitalised as property, plant and equipment	**—**	(12,951)
	63,901	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	
	2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Cost of inventories sold	**356,835**	288,698
Depreciation	**123,730**	82,814
Amortisation of prepaid land premiums	**211**	130
Amortisation of mining rights	**76,062**	70,958
Impairment of property, plant and equipment#	**300,000**	—
Impairment of mining rights#	**400,000**	—
Impairment of an other receivable#	**153,629**	—
Write-back of an other payable	**(29,349)**	—
Fair value gain on derivative component of convertible bonds	**—**	(35,452)
Other income from the termination of subscription agreements	**—**	(10,000)

These items are included in "Other expenses" in the condensed consolidated statement of comprehensive income during the period.

7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 June 2011: 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	
	2012 HK$'000 (unaudited)	2011 HK$'000 (unaudited)
Current — Mainland China	**19,949**	73,278
Deferred	**(200,476)**	(29,350)
	(180,527)	43,928

The share of tax attributable to the jointly-controlled entity amounting to HK$996,000 (Period ended 30 June 2011: Nil) is included in "Share of profit of a jointly-controlled entity" in the condensed consolidated statement of comprehensive income.

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 profit/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,428,729,168 (Period ended 30 June 2011: 1,206,120,685) in issue during the period.

For the six months ended 30 June 2012, 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 the 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 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.

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

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2012	2011
	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	**(680,196)**	94,098
Imputed interest of convertible notes (note 5)		16,693
Imputed interest of convertible bonds (note 5)		24,160
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	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	**1,428,729,168**	1,206,120,685
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

9. Property, Plant and Equipment

	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
At beginning of year/period		
Cost	**2,447,875**	1,417,380
Accumulated depreciation	**(296,699)**	(111,792)
Net carrying amount	**2,151,176**	1,305,588
At beginning of year/period, net of accumulated depreciation	**2,151,176**	1,305,588
Additions	**225,744**	823,160
Acquisition of a subsidiary	**—**	122,553
Impairment	**(300,000)**	—
Depreciation provided during the year/period	**(123,730)**	(157,880)
Written back on disposal	**(23,379)**	(23,414)
Exchange realignment	**(22,753)**	81,169
At end of year/period, net of accumulated depreciation and impairment	**1,907,058**	2,151,176
At end of year/period		
Cost	**2,610,517**	2,447,875
Accumulated depreciation and impairment	**(703,459)**	(296,699)
Net carrying amount	**1,907,058**	2,151,176

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.

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 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
0 to 30 days	**59,928**	116,427
31 to 60 days	**43,342**	—
61 to 90 days	**36,695**	—
91 to 180 days	**10,907**	—
181 to 365 days	**20,661**	—
More than 365 days	**863**	673
	172,396	117,100

Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary for the above balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

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 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
0 to 30 days	**1,151**	2,539
31 to 60 days	**4,850**	582
61 to 90 days	**86,333**	75
91 to 180 days	**259**	6
181 to 365 days	**520**	1,805
More than 365 days	**540**	41
	93,653	5,048

The trade and bills payables are non-interest-bearing and are normally settled on a term of 60-day for trade payables and 180-day for bills payable.

12. Interest-bearing Bank Borrowings

	Effective interest rate (%)	Maturity	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Current				
Bank loans — unsecured	6.31%–9.84%	2012–2013	**585,936**	555,075
Non-current				
Bank loans — secured	6.90%–7.05%	2013–2015	**671,385**	678,425
			1,257,321	1,233,500
Analysed into:				
Bank loans:				
Within one year			**585,936**	555,075
In the second year			**366,210**	370,000
In the third to fifth years, inclusive			**305,175**	308,425
			1,257,321	1,233,500

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 RMB400,000,000 (equivalent to HK$488,280,000) (31 December 2011: RMB400,000,000 (equivalent to HK$493,400,000, at the then exchange rate)) 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 2012 and 2013. This bank loan is guaranteed by Mr. Zhao Ming ("Mr. Zhao", a former holder of the convertible notes of the Company and a former shareholder of Triumph Fund A Limited, a subsidiary of the Group) and Mr. Hao Shenhai ("Mr. Hao", a former director of a subsidiary of the Group, Eerduosi Hengtai Coal Company Limited, "Hengtai"), and is secured by Hengtai's mining rights.

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

(ii) Bank loan of RMB250,000,000 (equivalent to HK$305,175,000) (31 December 2011: RMB250,000,000 (equivalent to HK$308,375,000, at the then exchange rate)) 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 and 2015. This bank loan is guaranteed by Mr. Zhao and Mr. Hao, and is secured by Hengtai's mining rights.

(iii) Bank loan of RMB20,000,000 (equivalent to HK$24,414,000) (31 December 2011: RMB20,000,000 (equivalent to HK$24,670,000, at the then exchange rate)) is subject to a floating interest rate based on 150% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 28 December 2012. This bank loan is guaranteed by 山西普大煤業集團有限公司, an entity in which Mr. Zhao has certain shareholdings.

(iv) As at 30 June 2012, a bank loan of RMB300,000,000 (equivalent to HK$366,210,000) is subject to a fixed annual interest rate of 6.31% and the maturity date is 17 June 2013. This bank loan is guaranteed by 山西普大煤業集團有限公司, an entity in which Mr. Zhao has certain shareholdings.

(v) As at 30 June 2012, a bank loan of RMB30,000,000 (equivalent to HK$36,621,000) 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 2013. This bank loan is guaranteed by 山西煤業集團有限公司, an entity in which Mr. Zhao has certain shareholdings.

(vi) As at 30 June 2012, a bank loan of RMB30,000,000 (equivalent to HK$36,621,000) is subject to a fixed annual interest rate of 7.87% and the maturity date is 31 March 2013. This bank loan is guaranteed by an independent third party, 內蒙古蒙發煤炭有限責任公司.

(vii) As at 31 December 2011, a bank loan of RMB300,000,000 (equivalent to HK$370,050,000, at the then exchange rate) is subject to a fixed annual interest rate of 6.31% and the maturity date was 20 June 2012. This bank loan was guaranteed by 山西普大煤業集團有限公司 (an entity in which Mr. Zhao has certain shareholdings), 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 (a director of Hengtai).

(viii) As at 31 December 2011, a bank loan of RMB30,000,000 (equivalent to HK$37,005,000, at the then exchange rate) 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 was 10 May 2012. This bank loan was guaranteed by an independent third party, 內蒙古東達蒙古王有限公司.

13. Share Option Scheme

The Company operated a share option scheme which was expired on 28 May 2012 (the "Old Scheme") and a new share option scheme (the "New Scheme") was approved by the shareholders of the Company and was effective from 30 May 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Upon the expiry of the Old Scheme, no further share options can be granted under the Old Scheme but in all other respects, the provisions of the Old Scheme shall remain in full force and effect. Further details of the New Scheme were disclosed in the circular of the Company dated 26 April 2012.

All share options vested upon the commencement of the exercise period. There were no movements of share options during the period. The exercise price and exercise period of the share options outstanding as at 1 January 2012 and 30 June 2012 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		

During the period ended 30 June 2012, equity-settled share-based payment expenses amounted to HK$6,624,000 (Period ended 30 June 2011: HK$20,254,000) was recognised in profit or loss.

At the end of the reporting period, the Company had 24,616,000 (31 December 2011: 24,616,000) share options outstanding. 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 and transfer from the share option reserve).

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

14. 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 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Within one year	1,949	2,765
In the second to the fifth years, inclusive	—	2,953
	1,949	5,718

15. 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 2012 HK$'000 (unaudited)	31 December 2011 HK$'000 (audited)
Contracted, but not provided for	53,557	—
Authorised, but not provided for	—	64,854
	53,557	64,854

Interim Dividends

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2012 (Period ended 30 June 2011: Nil).

Management Discussion and Analysis

Business Review

In the first half of 2012, the Europe debt crisis combined with the weak global and China economy have further dampened the coal market. Since the beginning of second quarter, the imbalance between supply and demand has resulted in high level of coal inventory across the country and caused thermal coal price drop drastically. The two coal mines of the Group operated by the two subsidiaries, Eerduosi Hengtai Coal Co. Ltd. ("Hengtai") and Inner Mongolia Liaoyuan Coal Mining Co. Ltd. ("Liaoyuan"), whose customers are mainly power plants in Inner Mongolia, unavoidably suffered from a downturn of sales volume and revenue.

Hengtai

Hengtai sold 1.64 million tonnes of coal in the first half of the year, representing a 37% decrease on a year-on-year basis. Average selling prices during the period also dropped to RMB140 per tonne from RMB206 per tonne in the corresponding period of last year. In view of the drastic decrease in domestic demand for thermal coal, Hengtai has stepped up efforts to coordinate its production and sales activities, arrange regular inspection and maintenance, and further strengthen its mine safety measures. Through a well-balanced production and sales strategy, Hengtai has successfully maintained stable output and recorded an improvement of sales volume over the second half of last year, which was 1.38 million tonnes.

Liaoyuan

During the period, Hengtai has completed the takeover of Liaoyuan, which was acquired in August 2011. Since the takeover, a series of improvement measures in the areas of sales and marketing strategies, production safety and internal control have been adopted to make Liaoyuan up to the Group's required standard. The above modifications, plus the decline of market demand, have affected Liaoyuan's output in the first half of the year which was down from 0.60 million tonnes to 0.38 million tonnes on a year-on-year basis. However with its superior heat value, the average selling prices of Liaoyuan, which was RMB243 per tonne during the period, out-performed that of Hengtai and improved the Group's overall average coal selling prices.

Business diversification

The Group, through its associate company — Beijing Juxin Taihe Energy Investment Fund Management Co. Ltd., (the "Fund Management Company") which was jointly set up with CITIC Trust Co. Ltd ("CITIC Trust") in 2011, has successfully diversified its source of income. The Fund Management Company managed energy trust funds (the "Trust Funds") which invested in quality coal mines and clean energy projects in China. Since its launching, the size of the Trust Funds has reached approximately RMB1 billion and their investment return has been proven. In return, the Group shared a profit of HK$2.7 million in the first half of the year. It is believed that the continuous growth of the trust fund business will increasingly contribute a major part of income to the Group.

Management Discussion and Analysis *(continued)*

Results Review

Revenue

The Group recorded a total revenue of approximately HK$396 million (Period ended 30 June 2011: HK$532 million) representing a decrease of 26% compared with last comparable period. Hengtai and Liaoyuan (which was acquired by the Group in August 2011) contributed revenue of approximately HK$283 million (Period ended 30 June 2011: HK$532 million) and HK$113 million during the period, respectively.

The average selling prices ("ASPs") of raw coal produced in Hengtai and Liaoyuan during the period were approximately RMB140 (Period ended 30 June 2011: RMB206) and RMB243 per tonne, respectively. During the period, Hengtai and Liaoyuan recorded sales volume of approximately 1.64 million tonnes (Period ended 30 June 2011: 2.2 million tonnes) and 0.38 million tonnes, respectively. Decreases in both ASPs and sales volume were attributable to weak demand in coal market which was significantly affected by economic slowdown in China during the period.

Cost of sales

Cost of sales primarily consists of depreciation and amortisation, salaries and related labour cost for the production, taxes, supplies, utilities and other incidental expenses in relation to production. During the period, cost of sales was approximately HK$356.8 million (Period ended 30 June 2011: HK$288.7 million), representing an increase of 24% compared with last comparable period. The increase was mainly attributable to cost of sales of approximately HK$109 million incurred by Liaoyuan during the period.

Gross profit and gross profit margin

Overall gross profit declined from approximately HK$244 million last year to approximately HK$39 million. The gross profit margin of Hengtai was 12% as compared to 46% in the six months ended 30 June 2011. Liaoyuan recorded gross profit margin of 3.5% during the period. The significant decreases were attributable to decrease in ASPs during the period as mentioned above.

Other income and gains, net

Other income and gains of approximately HK$32.5 million (Period ended 30 June 2011: HK$46.8 million) mainly represented write back of an other payable of approximately HK$29 million during the period. During the six months ended 30 June 2011, fair value gain on derivative component of the convertible bonds amounting to approximately HK$35 million and other income of HK$10 million arising from termination of subscriptions were recognised in the income statement.

Selling and distribution costs and administrative expenses

Selling and distribution costs and administrative expenses were approximately HK$4 million and HK$52.5 million, respectively during the period as compared to approximately HK$1.7 million and HK$64 million, respectively for the same period of last year.

Management Discussion and Analysis *(continued)*

Results Review *(continued)*

Selling and distribution costs and administrative expenses (continued)

Administrative expenses mainly comprised staff cost for administrative and finance functions including equity-settled share option expenses, legal and professional fee incurred for operation, depreciation and other incidental administrative expenses. The decrease in administrative expenses was mainly due to decrease in equity-settled share option expenses to approximately HK$6.6 million (Period ended 30 June 2011: HK$20.3 million) during the period.

Other expenses

Other expenses mainly comprised impairments of property, plant and equipment, and mining rights of Hengtai and Liaoyuan and an other receivable of approximately HK$300 million, HK$400 million and HK$153.6 million, respectively, during the period.

In view of the significant decline of coal price since the second quarter of 2012, which is an indication of impairment, the management had estimated the recoverable amounts (considered to be the same as the value in use by the management) of the assets of the coal mining businesses of the Group, which included property, plant and equipment and mining rights. In assessing the value in use, the future cash flows of such coal mining businesses estimated by the management are discounted to the related present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but not limited to selling prices and sales volumes of coal, production cost and other expenses, capital expenditure and discount rate, which reflected the current market condition and estimated trend in the future. Based on the assessment, impairment loss totaling HK$700 million was resulted and was allocated as to HK$300 million to property, plant and equipment and HK$400 million to mining rights based on their relative carrying amounts.

The impairment of an other receivable of HK$153.6 million represented impairment of the indemnification asset due from the vendor of Liaoyuan (the "Vendor") who had agreed, pursuant to the relevant sale and purchase agreement, to undertake the repayment of all liabilities of Liaoyuan existed prior to the completion of acquisition of Liaoyuan in 2011 (the "Indemnification Asset"). The Indemnification Asset has not been recovered as at the date of these financial statements. In addition, according to a supplemental agreement entered in May 2012, the Vendor had arranged a party independent from the Group to assume certain assets and liabilities of Liaoyuan existed prior to 1 June 2012 and all the obligation of the Vendor under the original sale and purchase agreement shall be considered duly fulfilled. Given the above, a full impairment was made in view of uncertainties as to the ultimate recovery of the Indemnification Asset.

Management Discussion and Analysis *(continued)*

Results Review *(continued)*

Finance costs

Finance costs were approximately HK$63.9 million (Period ended 30 June 2011: HK$77.8 million) which mainly represented interest expenses for loans raised in Hengtai of approximately HK$53.8 million (Period ended 30 June 2011: HK$48.3 million) during the period and amortisation of liability component of convertible notes of approximately HK$10.1 million (Period ended 30 June 2011: HK$16.7 million). As the convertible bonds were redeemed in September 2011, no interest expenses in respect of the convertible bonds were incurred during the period (Period ended 30 June 2011: HK$25.8 million). No interest expenses were capitalised during the period (Period ended 30 June 2011: HK$13 million).

Share of profit of a jointly-controlled entity

Share of profit of a jointly-controlled entity represented share of profit generated from the Fund Management Company set up with CITIC Trust during the six months ended 30 June 2011.

Income tax

Income tax credit was approximately HK$180.5 million (Period ended 30 June 2011: expenses of HK$43.9 million) during the period. It represented provision for taxation for operating profit generated from Hengtai and Liaoyuan of approximately HK$19.9 million (Period ended 30 June 2011: HK$73.3 million) which was offset by write back of deferred taxation of approximately HK$200.4 million (Period ended 30 June 2011: HK$29.4 million). No provision for Hong Kong profits tax has been made during the period.

Profit/loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately HK$680.2 million (Period ended 30 June 2011: profit of HK$94.1 million) during the period. The turnaround was mainly attributable to (1) significant decrease in revenue and gross profit; and (2) impairments of property, plant and equipment, and mining rights and other receivable during the period.

Future Prospects

Looking into the rest of 2012, it is expected that the economic environment worldwide will remain shaky. While maintaining stable economic growth, the Chinese government will continue to adopt tight policies to suppress domestic inflation by limiting the upside of oil and coal prices. However, with coal remains to be the key raw materials in China's energy consumption structure, the Group is optimistic in the long-term prospect of the coal sector.

Thermal coal market

There was a positive sign that the stockpile across the country has been slowly going down since August 2012. It is expected that the peak season effect this year will appear less significant as the power plants will continue to consume the stockpile. Coal production in the third quarter is expected to remain steady while supply and demand resuming to normal can be foreseen in the fourth quarter.

Management Discussion and Analysis *(continued)*

Future Prospects *(continued)*

Product mix

Through acquiring Liaoyuan last year, the Group has enriched its coal resources and improved product mix by selling higher calorific value raw coal. The coal washing plant in Hengtai is scheduled to be put into operation in 2013. By then, the Group will further diversify its product type from raw coal to clean coal, which is expected to enhance the profit margins.

Further expansion

Realizing the importance of abundant coal resources to the long-term sustainable growth, the Group will step up effort to speed up the application for a potential new mine adherent to Liaoyuan. Meanwhile, the Group will actively explore for quality mergers and acquisition projects to enhance the Group's coal resources and production scale.

Financial liquidity

Considering future liquidity, the Group will line up with major banks in the PRC and Hong Kong for the funding needs for future development. The Group also will strive to maintain the trade receivables and payables at a healthy turnover rate. At the same time, the Group will further strengthen its capital base by raising equity funds and introducing quality long-term investors at appropriate time.

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 2012, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.21 : 1, compared with 0.37 : 1 as at 31 December 2011.

As at 30 June 2012, the cash and cash equivalents of the Group were approximately HK$44.4 million (31 December 2011: HK$51.9 million). During the period, the Group recorded a net cash inflow generated from its operating activities of approximately HK$147.9 million (Period ended 30 June 2011: HK$482.4 million). As disclosed in the annual report for the year ended 31 December 2011, two customers have entered into contracts (the "Contracts") with the Group in March 2012 to purchase the Group's future coal output up to March 2014 and agreed to prepay a sum amounting to HK$311 million to the Group in April 2012. The Contracts have not been executed during the period due to sluggish market situation.

As at 30 June 2012, the Group had outstanding interest-bearing bank borrowings amounted to approximately HK$1,257.3 million (31 December 2011: HK$1,233.5 million). Of the Group's interest-bearing bank borrowings, 47%, 29% and 24%, respectively, were repayable within one year, in the second year and in the third to the fifth years, inclusive (31 December 2011: 45%, 30%, 25%). All bank loans of the Group were denominated in Renminbi. As at 30 June 2012, bank loans of approximately HK$854.5 million (31 December 2011: HK$863.5 million) were interest-bearing with floating interest rates and bank loans of approximately HK$402.8 million (31 December 2011: HK$370 million) were charged at fixed interest rates of 6.31% and 7.87% (31 December 2011: 6.31%) per annum.

Management Discussion and Analysis *(continued)*

Liquidity and Financial Review *(continued)*

As at 30 June 2012, the carrying amount of the liability component of the Group's zero coupon redeemable convertible notes amounting to approximately HK$231.9 million (31 December 2011: HK$221.8 million). The 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.

Gearing Ratio

The gearing ratio of the Group, measured as net debt, which represents trade and bills payables, other payables and accruals and interest-bearing bank borrowings, less cash and cash equivalents to the total capital, which represents liability component of convertible notes and equity attributable to owners of the Company, was 1.15 as at 30 June 2012, as compared to 0.91 as at 31 December 2011.

Significant Investments, Material Acquisitions and Disposals

On 31 August 2011, the Company entered into a memorandum of understanding (the "MOU") to acquire not less than 51% equity interest of a coal mine in Shanxi. The MOU lapsed on 31 January 2012 and the earnest money of HK$180 million has been refunded by the vendor accordingly.

Save as disclosed above, the Group had no material requisition and disposal during the period.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 30 June 2012, the capital commitments of the Group were approximately HK$53.6 million. The capital commitments were mainly related to purchasing machineries for the operation of coal mines.

As at 30 June 2012, the bank loans of approximately HK$793.5 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 2012, bank balances of approximately HK$2.8 million were pledged for bills issued by the Group.

Save as disclosed above, the Group had no other assets pledged as at 30 June 2012.

As at 30 June 2012, there was no material contingent liability of the Group.

Human Resources and Share Option Scheme

As at 30 June 2012, the Group had 726 (31 December 2011: 804) full-time employees. The total staff costs for the six months ended 30 June 2012 were approximately HK$48.2 million (Period ended 30 June 2011: HK$34.5 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 New Scheme, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 30 June 2012, 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 2012, 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 of Hong Kong Limited (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"):

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	277,945,500	5,000,000	282,945,500	19.80%
Mr. Tian Wenwei (note 2)	Beneficial owner	–	3,750,000	3,750,000	0.26%
Mr. Wang Tongtian (note 2)	Beneficial owner	–	1,500,000	1,500,000	0.10%
Mr. Chiu Sui Keung (note 2)	Beneficial owner	–	500,000	500,000	0.03%

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:

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

   (a) 160,082,000 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) 97,838,500 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) 11,046,000 shares are held by Sky Circle International Limited which is wholly owned by Mr. Wang Da Yong.

   (d) 2,671,000 shares are held by Ms. Yuan Hong, the spouse of Mr. Wang Da Yong.

   (e) 6,308,000 shares are held directly by Mr. Wang Da Yong.

2. Options were granted to Mr. Tian Wenwei under the Old 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 Old 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. Chiu Sui Keung under the Old 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 Old 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.

Save as disclosed above, as at 30 June 2012, 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.

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

(b) Directors' rights to acquire shares

The Company operates the Old Scheme until 28 May 2012 and thereafter the New Scheme 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. No share options are granted during the period. Further details of the share options granted to directors under the Old Scheme are set out in part (a) above.

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

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 2012, 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 long position of shares/underlying shares	Approximate percentage of the Company's issued share capital
Simsen International Corporation Limited (note 1)	Beneficial owner	231,364,000	16.19%
Joint Ascent Limited (note 2)	Beneficial owner	160,082,000	11.20%
Simsen Asset Management (Asia) Limited (note 1)	Beneficial owner	119,364,000	8.35%
China Coal and Coke Investment Holding Company Limited (note 3)	Beneficial owner	97,838,500	6.85%
Sino Bridge Investments Limited (note 3)	Through controlled corporation	97,838,500	6.85%
Chrism Investments Limited (note 4)	Beneficial owner	93,250,000	6.53%

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. Simsen International Corporation Limited, a listed company in Hong Kong with stock code 993, together with its subsidiary, Simsen Asset Management (Asia) Limited, held convertible notes which entitle the holder thereof to convert into 231,364,000 shares at the conversion price of HK$1.25 per share.

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

3. 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.

4. The number of shares held by Chrism Investments Limited was 1,865,000,000 pursuant to disclosure of interests notice dated 20 May 2011. The number of shares disclosed in the above table has been adjusted for the share consolidation effective from 27 June 2011.

Save as disclosed above, as at 30 June 2012, 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 Division 2 and 3 of Part XV of the SFO.

Purchase, Redemption or Sale of Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

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 Corporate Governance Code (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 2012.

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 Company. 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.

Code on Corporate Governance Practices *(continued)*

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Save for Mr. Chiu Sui Keung, the independent non-executive director of the Company, who is 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, though 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.

Update Profile of Mr. Lam Ka Wai, Graham

Mr. Lam Ka Wai, Graham ("Mr. Lam"), aged 44, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of HKICPA and a member of the American Institute of Certified Public Accountants. Mr. Lam is currently the Managing Director and Head of Corporate Finance of an investment bank and has around 18 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also the independent non-executive director of Cheuk Nang (Holdings) Limited (stock code: 131), China Fortune Financial Group Limited (stock code: 290), Pearl Oriental Oil Limited (stock code: 632), Nan Nan Resources Enterprise Limited (stock code: 1229) and Trasy Gold Ex Limited (stock code: 8063), companies listed on the Stock Exchange.

In addition, Mr. Lam was the independent non-executive director of Applied Development Holdings Limited (stock code: 519) from 1 October 2005 to 12 December 2011, Value Convergence Holdings Limited (stock code: 821) from 4 January 2010 to 24 May 2012, China Oriental Culture Group Limited (stock code: 2371) from 29 January 2008 to 5 October 2010, Hao Wen Holdings Limited (stock code: 8019) from 17 November 2010 to 16 May 2011, China Railway Logistics Limited (stock code: 8089) from 22 December 2008 to 27 April 2012 and Finet Group Limited (stock code: 8317) from 5 August 2009 to 24 January 2011, companies listed on the Stock Exchange.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2012.

Review by Audit Committee

The 2012 interim report is unaudited, but has been reviewed by the Audit Committee of the Company which comprises the three Independent Non-Executive Directors of the Company namely, Mr. Chiu Sui Keung, Mr. Li Peiming and Mr. Lam Ka Wai, Graham. 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, 30 August 2012