



2012 Interim Report

VISION AND ACTION FOR A **BETTER WAY FORWARD**



ENERGY

Kiu Hung Energy Holdings Limited

僑雄能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 00381)

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Corporate Information

Executive Directors

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

Independent Non-executive Directors

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

Company Secretary

Mr. Cheung Kai Fung *CPA, FCCA*

Registered Office

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KY1-1111
Cayman Islands

Head Office and Principal Place of Business

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8-10 Duddell Street
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Hong Kong

Auditor

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

Stock Code

00381.HK

Company's Website

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

Principal Bankers

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

Wing Hang Bank
Head Office
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Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Condensed Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Turnover	5	69,151	68,731
Cost of sales		(56,372)	(54,859)
Gross profit		12,779	13,872
Other income		572	1,081
Selling and distribution costs		(10,446)	(9,380)
Administrative expenses		(35,607)	(27,938)
Other gain		424	13,593
Operating loss		(32,278)	(8,772)
Finance costs		(4,285)	(1,055)
Share of profit of a jointly controlled entity		–	103
Loss before income tax		(36,563)	(9,724)
Income tax expense	6	(496)	(694)
Loss for the period	7	(37,059)	(10,418)
Loss attributable to:			
– equity holders of the Company		(39,276)	(10,352)
– non-controlling interests		2,217	(66)
		(37,059)	(10,418)
		HK cents	HK cents
Loss per share attributable to the equity holders of the Company			
– basic and diluted	9	(0.66)	(0.18)

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Loss for the period	(37,059)	(10,418)
Other comprehensive income:		
Exchange difference arising from translation of foreign operations	(3,576)	13,553
Adjustment on revaluation of properties	1,092	549
Deferred tax arising on adjustment on revaluation of properties	(90)	(92)
Total comprehensive (loss)/income for the period	(39,633)	3,592
Total comprehensive (loss)/income attributable to:		
– equity holders of the Company	(41,850)	3,658
– non-controlling interests	2,217	(66)
	(39,633)	3,592

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	106,135	100,015
Prepaid land lease payments		4,668	4,752
Investment properties		9,309	9,358
Exploration and evaluation assets	11	783,750	788,075
Other intangible asset		1,088	1,093
		904,950	903,293
Current assets			
Inventories		31,813	26,119
Trade receivables	12	13,923	18,093
Prepayment, deposits and other receivables		13,621	14,945
Tax recoverable		410	973
Bank and cash balances		6,269	13,002
		66,036	73,132
Total assets		970,986	976,425
Current liabilities			
Trade payables	13	20,705	20,689
Accruals and other payables		27,567	23,407
Tax payable		419	398
Borrowings		78,361	63,405
		127,052	107,899
Net current liabilities		(61,016)	(34,767)

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	<i>Note</i>	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Total assets less current liabilities		843,934	868,526
Non-current liabilities			
Deferred tax liabilities		185,746	187,059
		185,746	187,059
Net assets		658,188	681,467
Equity			
Share capital	14	119,386	115,386
Reserves		534,501	563,997
Equity attributable to equity holders of the Company		653,887	679,383
Non-controlling interests		4,301	2,084
Total equity		658,188	681,467

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Share-based payment reserve (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2011	100,289	758,054	3,191	303	71,107	12,468	21,022	(515,891)	450,543	291	450,834
Total comprehensive income/(loss) for the period	-	-	-	-	13,553	-	457	(10,352)	3,658	(66)	3,592
Exercise of convertible notes to ordinary shares	15,094	218,870	-	-	-	-	-	-	233,964	-	233,964
Issue of shares upon exercise of share options	3	23	-	-	-	(11)	-	-	15	-	15
Recognition of share-based payment	-	-	-	-	-	336	-	-	336	-	336
Release on forfeiture of share options	-	-	-	-	-	(694)	-	694	-	-	-
At 30 June 2011	115,386	976,947	3,191	303	84,660	12,099	21,479	(525,549)	688,516	225	688,741
At 1 January 2012	115,386	976,947	3,191	303	101,736	12,302	25,254	(555,736)	679,383	2,084	681,467
Total comprehensive (loss)/income for the period	-	-	-	-	(3,576)	-	1,002	(39,276)	(41,850)	2,217	(39,633)
Recognition of share-based payment	-	-	-	-	-	4,354	-	-	4,354	-	4,354
Release on forfeiture of share options	-	-	-	-	-	(5,761)	-	5,761	-	-	-
Issue of shares on placement	4,000	8,000	-	-	-	-	-	-	12,000	-	12,000
Transfer to reserve	-	-	76	-	-	-	-	(76)	-	-	-
At 30 June 2012	119,386	984,947	3,267	303	98,160	10,895	26,256	(589,327)	653,887	4,301	658,188

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash outflow from operating activities	(31,258)	(34,918)
Net cash outflow from investing activities	(9,665)	(6,236)
Net cash inflow from financing activities	34,202	14,492
Net decrease in cash and cash equivalents	(6,721)	(26,662)
Cash and cash equivalents at 1 January	13,002	49,699
Effect of foreign exchange rate changes	(12)	(650)
Cash and cash equivalents at 30 June	6,269	22,387

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

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

1 GENERAL INFORMATION

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

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

These unaudited condensed consolidated interim financial statements are presented in HK dollars, unless otherwise stated. These unaudited condensed consolidated interim financial statements were approved by the board of directors for issue on 24 August 2012.

2 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Going Concern

At 30 June 2012, the Group's current liabilities exceeded its current assets by approximately HK\$61,016,000 and the Group recorded a loss of approximately HK\$37,059,000 and a net operating cash outflow of approximately HK\$31,258,000 during the period ended 30 June 2012. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various operational and financing measures as follows:

- 1) During the reporting period, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK\$0.06 per share to not less than six independent investors. The net proceeds (after deducting the placing expenses) of the top-up placing amounted to approximately HK\$11,632,000;
- 2) During the reporting period and up to the date of this interim report, the Group obtained new short term borrowings of approximately HK\$9,600,000;
- 3) During the reporting period, the Company extended its borrowings of HK\$5,500,000, which would be due in July to September 2012, to 15 March 2013. Among the extended borrowings, HK\$2,000,000 is secured by the personal guarantee from a director of the Company;

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

2 BASIS OF PREPARATION (Continued)

Going Concern (Continued)

- 4) The Group is in negotiation with financial institutions/lenders to obtain new borrowings and to extend existing borrowings upon their due dates;
- 5) The Group is in negotiation with its creditors to extend payment due dates; and
- 6) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible note.

Taking into account the above-mentioned measures, the opinion of the directors of the Company with respect to sufficiency of the working capital of the Group remains as stated in the 2011 annual report dated 28 March 2012. Accordingly, the unaudited condensed consolidated interim financial statements have been prepared on a going concern basis.

Our ability to successfully implement the above-mentioned measures is subject to various factors, including but not limited to our future operating performance, market conditions and other factors, many of which are beyond our control and cannot be predicted with certainty. In the future, if sufficient funds are unavailable to meet our needs or refinancing cannot be obtained on commercially acceptable terms, if at all, then we may not be able to repay our borrowings, particularly our short-term borrowings, upon maturity or complete the development of our mines. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Should the Group be unable to operate as a going concern, adjustment would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The unaudited condensed consolidated interim financial statements do not include any of these adjustments.

3 ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the financial year ended 31 December 2011, except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 January 2012. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group. In addition, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4 ESTIMATES

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2011.

5 SEGMENT INFORMATION

The Group has two reportable segments as follows:

Exploration and mining – Exploration and mining of natural resources

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

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

Segment results do not include gain or loss on change in fair value of convertible notes (designated as financial liabilities at fair value through profit or loss), corporate finance costs and other corporate income and expenses. Segment assets do not include current and non-current assets at corporate level.

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

	Exploration and mining HK\$'000	Toys and gifts items HK\$'000	Total HK\$'000
Six months ended 30 June 2012 (unaudited):			
Revenue from external customers	1,788	67,363	69,151
Segment loss	(8,049)	(14,693)	(22,742)
Six months ended 30 June 2011 (unaudited):			
Revenue from external customers	–	68,731	68,731
Segment loss	(6,033)	(7,064)	(13,097)
Total assets:			
30 June 2012 (unaudited)	831,610	138,567	970,177
31 December 2011 (audited)	831,165	143,157	974,322

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

5 SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Reconciliation of segment results:		
Total loss of reportable segments	(22,742)	(13,097)
Unallocated amounts:		
Gain on change in fair value of convertible notes (<i>note 7</i>)	–	11,321
Corporate finance costs	(757)	–
Other corporate income and expenses	(13,560)	(8,642)
Loss for the period	(37,059)	(10,418)
Reconciliation of segment assets:		
Total assets of reportable segments	970,177	974,322
Unallocated corporate assets:		
Non-current assets	68	271
Current assets	741	1,832
	809	2,103
Total assets	970,986	976,425

6 INCOME TAX EXPENSE

Hong Kong and overseas profits tax has been provided at the rate of 16.5% (2011: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively.

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current tax:		
– The People's Republic of China (the "PRC")	219	414
– The United States of America	673	–
Total current tax	892	414
Deferred tax	(396)	280
Income tax expense	496	694

7 LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	4,262	3,293
Amortisation of prepaid land lease payments	58	54
Amortisation of license rights	5	6
Gain on change in fair value of convertible notes (<i>note 5</i>)	–	(11,321)
Staff costs (including directors' emoluments):		
– Wages and salaries	18,304	19,301
– Retirement benefits scheme contributions	1,748	964
– Share-based payment expenses	4,354	336
Write-back of provision for impairment of amount due from a jointly controlled entity	–	(1,697)
Interest expenses on borrowings wholly repayable within 5 years	4,285	1,055

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

8 DIVIDEND

The Board has resolved not to pay any interim dividend for the period (2011: Nil).

9 LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company for the period of approximately HK\$39,276,000 (2011: HK\$10,352,000) and the weighted average of 5,921,784,672 (2011: 5,669,109,455) ordinary shares in issue during the period.

For the six months ended 30 June 2012 and 30 June 2011, the Group has incurred a loss and the conversion of all potential ordinary shares arising from the outstanding share option (granted in 2006, 2007, 2009, 2010 and 2012) would have an anti-dilutive effect on the loss per share. Accordingly, the weighted average number of ordinary share was not adjusted to compute the diluted loss per share.

10 PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group has acquired property, plant and equipment of approximately HK\$9,650,000 (2011: HK\$6,295,000).

11 EXPLORATION AND EVALUATION ASSETS

During the reporting period, exchange loss of approximately HK\$4,350,000 has been recognised as a result of the translation of foreign operations in the PRC (2011: exchange gain of HK\$17,426,000).

12 TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At 30 June 2012 and 31 December 2011, the ageing analysis of trade receivables based on invoice date, net of provision, were as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within 30 days	7,209	13,914
31 days to 90 days	5,536	2,305
91 days to 180 days	992	1,789
181 days to 360 days	185	83
Over 360 days	1	2
	13,923	18,093

13 TRADE PAYABLES

At 30 June 2012 and 31 December 2011, the ageing analysis of trade payables based on invoice date were as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within 30 days	8,013	7,362
31 days to 90 days	7,729	7,372
91 days to 180 days	3,316	4,920
181 days to 360 days	1,345	715
Over 360 days	302	320
	20,705	20,689

14 SHARE CAPITAL

	Number of shares		Ordinary share capital	
	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Note				
Authorised:				
Ordinary shares of HK\$0.02 each	10,000,000,000	10,000,000,000	200,000	200,000
Issued and fully paid:				
At beginning of period/year	5,769,304,672	5,014,426,800	115,386	100,289
Issue of shares on:				
– Exercise of share options	–	156,000	–	3
– Conversion of convertible notes	–	754,721,872	–	15,094
– On placement (a)	200,000,000	–	4,000	–
At end of period/year	5,969,304,672	5,769,304,672	119,386	115,386

Note:

- (a) During the reporting period, the Company entered into a placing and subscription agreement with a placing agent and Legend Win Profits Limited for (i) the placing of up to an aggregate of 200,000,000 ordinary shares of HK\$0.02 each of the Company to independent investors at the placing price of HK\$0.06 per share; and (ii) the subscription of up to 200,000,000 new ordinary shares of HK\$0.02 each of the Company by Legend Win Profits Limited at the subscription price of HK\$0.06 per share. Net proceeds of the subscription of 200,000,000 new ordinary shares of the Company (after deducting placing expenses) amounted to approximately HK\$11,632,000.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2012

15 RELATED PARTY TRANSACTIONS

	Notes	Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Sales of goods to a jointly-controlled entity	(a)	–	3,833
Product development, sale and marketing services fee paid to a related company	(b)	832	915

Notes:

- (a) A shareholder of the jointly-controlled entity was also the beneficial owner of 30% equity interest in the Company's subsidiary making the sales.
- (b) The sole owner of the related company is also the director and beneficial owner of 49% (2011: 49%) equity interest in the Company's subsidiary paying for the services.

16 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As at 30 June 2012 (unaudited) HK\$'000	As at 31 December 2011 (audited) HK\$'000
Property, plant and equipment	247	808

Management Discussion and Analysis

Financial Highlights

For the six months ended 30 June 2012 (the “Period”), the Group recorded turnover of approximately HK\$69.2 million (2011: HK\$68.7 million), representing an increase of approximately 1% as compared with the same period last year. The Group’s loss attributable to equity holders of the Company for the Period was approximately HK\$39.3 million (2011: HK\$10.4 million). The increase in loss attributable to equity holders of the Company for the Period was mainly attributable to (i) a decrease in gain arising on changes in fair value of the Company’s financial liabilities at fair value through profit or loss; (ii) an increase in share-based payment expenses; and (iii) an increase in finance costs. Basic loss per share for the Period was 0.66 HK cents (2011: 0.18 HK cents). The Board has resolved not to pay any interim dividend for the Period (2011: Nil).

Business and Operational Review

Segmental information analysis

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

Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business was approximately HK\$67.4 million for the Period (2011: HK\$68.7 million). Gross profit margin for the Period was 19.7% (2011: 20.4%). The segment loss of the manufacturing and trading of toys and gifts items was approximately HK\$14.7 million (2011: HK\$7.1 million). The increase in segment loss was mainly attributable to (i) a decrease in write-back of provision for impairment of amount due from a jointly controlled entity; and (ii) an increase in finance costs.

Exploration and mining of natural resources

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

	Inferred Resources (Million Tonnes)
Guerbanhada Coal Mine (“GCM”)	106.00
Huanghuashan Coal Mine (“HCM”)	7.85
Bayanhushuo Coal Field (“BCF”)	394.05*
Total	507.90

* *In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) during 2011. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.*

HCM commenced production again during the second quarter of 2012 and contributed revenue of approximately HK\$1.8 million (2011: nil) to the Group for the Period.

In 2011, the government of Tongliao City of Inner Mongolia Autonomous Region (“Tongliao City”) announced a proposal to merge the coal mines located in Tongliao City, in which HCM is located. However, the details of the proposed merger have not yet been released by the government of Tongliao City.

Management Discussion and Analysis

In addition, the Economic and Information Committee Office of Inner Mongolia Autonomous Region (內蒙古自治區經濟和信息化委員會辦公室) has issued a consultation paper (the "Consultation Paper") in May 2012 to propose not to renew after 1 January 2013 any mining licence with annual production capacity less than 450,000 tonnes. The current annual production capacity of the mining licence of HCM is 300,000 tonnes. According to the PRC legal advisor, the Consultation Paper is not legally effective yet. The Group is closely monitoring the development of the Consultation Paper and considering to increase the annual production capacity of HCM to 450,000 tonnes.

GCM is located in Xilinguolemeng of Inner Mongolia Autonomous Region, the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, GCM has estimated coal resources of approximately 106 million tonnes of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal coal market.

The master planning (總體規劃) of GCM has been agreed by the Development and Reform Commission of Inner Mongolia Autonomous Region (內蒙古自治區發展和改革委員會) and has been submitted to the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of the PRC (中華人民共和國國家能源局) for their approvals during 2010. The current licence period of the exploration right of GCM is from 23 September 2011 to 22 September 2013.

BCF is located in Xilinguolemeng of Inner Mongolia Autonomous Region, the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, BCF has an estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. During the Period, the master planning of BCF was submitted to the Development and Reform Commission of Inner Mongolia Autonomous Region for its approval. The current licence period of the exploration right of BCF is from 19 June 2010 to 4 July 2012 and is under renewal after the Period.

The approval of the master planning from the Development and Reform Commission of Inner Mongolia Autonomous Region and the National Development and Reform Commission of the PRC is one of the pre-conditions of getting the mining licence. The Group has been closely following up the application with its best endeavors to expedite the application process of the mining licences of GCM and BCF.

During the Period, the Development and Reform Commission of Inner Mongolia Autonomous Region has issued a consultation paper in April 2012 to propose that the exploration licence holders shall return their exploration licence to the government if they are unable to apply the mining licence in accordance with the relevant law and regulations during the exploration licence period (the "Proposal"). According to the PRC legal advisor, the Proposal has not become legally effective yet and the Group will closely monitor the development of the Proposal and assess the impact to the Group.

Administrative expenses

Administrative expenses for the Period increased by approximately 27.6% to approximately HK\$35.6 million as compared to approximately HK\$27.9 million in the same period last year. The increase was mainly attributable to an increase in share-based payment expenses of approximately HK\$4.0 million.

Other gain

Other gain for the Period decreased by approximately HK\$13.2 million was mainly attributable to the fair value gain on financial liabilities at fair value through profit or loss of approximately HK\$11.3 million and the reversal of provision for impairment of amount due from a jointly controlled entity of approximately HK\$1.7 million recorded in the same period last year. No such other gain was recorded during the Period.

Finance costs

Finance costs for the Period increased by approximately HK\$3.2 million was mainly due to an increase in borrowings during the Period as compared to the same period last year.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in Hong Kong and in the PRC. As at 30 June 2012, the Group had bank and cash balances of approximately HK\$6.3 million (31 December 2011: HK\$13.0 million). The Group's bank and cash balances were mostly held in Hong Kong dollars and Renminbi.

As at 30 June 2012, the Group's borrowings amounted to approximately HK\$78.4 million (31 December 2011: HK\$63.4 million). The Group's borrowings were denominated in Hong Kong dollars and Renminbi, of which approximately 73.7% (31 December 2011: 69.0%) bore interest at fixed lending rate.

The gearing ratio of the Group calculated as the Group's net current debts (comprising current liabilities less bank and cash balances) over its total equity was approximately 18.4% as at 30 June 2012 (31 December 2011: 13.9%).

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

As at 30 June 2012, certain property, plant and equipment, prepared land lease payments and investment properties held by the Group with aggregate carrying values of approximately HK\$83.5 million (31 December 2011: 86.9 million) were pledged to secure general banking facilities granted to the Group.

As at 30 June 2012, the Group had capital commitments of approximately HK\$0.2 million (31 December 2011: HK\$0.8 million).

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

Business Prospects and Future Plan

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

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

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

Employment, Training and Development

As at 30 June 2012, the Group had a total of 1,062 employees (2011: 849 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

Corporate Governance and Other Information

Code on Corporate Governance Practices

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

Model Code for Securities Transactions by Directors

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

Audit Committee

The audit committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The audit committee of the Company comprises Mr. Lam Siu Lun, Simon, Mr. Zhang Xianmin and Mr. Jin Peihuang, the independent non-executive directors of the Company. The audit committee has reviewed the unaudited condensed consolidated interim financial statements and the interim report of the Group for the six months ended 30 June 2012.

Change in Information of Directors

The director’s emolument (including any sum receivable as director’s fee or remuneration) per month of Mr. Lam Kit Sun has been renewed to HK\$95,000 with effect on 1 April 2012. Save as disclosed above, there is no other change in information of the directors of the Company to be disclosed pursuant to Rule 13.51(B) of the Listing Rules subsequent to the date of the 2011 Annual Report of the Company and up to the date of this interim report.

Directors’ Interests in Shares

As at 30 June 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Number of shares or underlying shares held	Capacity			Approximate percentage of shareholding
		Interest of controlled corporation	Interest of child under 18 or spouse	Beneficial owner	
Yu Won Kong, Dennis	598,536,821	–	14,500,000	584,036,821	10.03%
Hui Kee Fung (Note)	779,500,000	767,500,000	–	12,000,000	13.06%
Guo Tianjue	59,000,000	–	–	59,000,000	0.99%
Lam Kit Sun	12,000,000	–	–	12,000,000	0.20%
Lam Siu Lun, Simon	15,000,000	–	–	15,000,000	0.25%
Zhang Xianmin	15,000,000	–	–	15,000,000	0.25%
Jin Peihuang	9,000,000	–	–	9,000,000	0.15%

Note:

The shares are held by Legend Win Profits Limited. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung and Hui's K. K. Foundation Limited as to 38.95% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung is a registered member and director of Hui's K. K. Foundation Limited.

Save as disclosed above, as at 30 June 2012, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed in the paragraphs headed "Directors' Interests in Shares" and "Share Option Scheme" of this interim report, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders

So far as is known to any director or chief executive of the Company, as at 30 June 2012, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Corporate Governance and Other Information

Long position in the shares of the Company

Name of shareholder	Number of shares or underlying shares held	Capacity		Approximate percentage of shareholding
		Beneficial owner	Interest of child under 18 or spouse	
Ho Siu Lan, Sandy (Note 1)	598,536,821	14,500,000	584,036,821	10.03%
Legend Win Profits Limited (Note 2)	767,500,000	767,500,000	–	12.86%
Yue Wai Keung	550,448,230	550,448,230	–	9.22%
Ruan Yuan	530,000,000	530,000,000	–	8.87%

Notes:

1. *Ho Siu Lan, Sandy is the spouse of Yu Wong Kong, Dennis, an executive director of the Company.*
2. *Details of Legend Win Profits Limited are disclosed in the paragraph headed "Directors' Interest in Shares" of this interim report.*

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company as at 30 June 2012.

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") which became effective on 28 May 2002. Pursuant to the Scheme, the directors may, at their discretion, invite any eligible participants of the Group to take up options to subscribe for shares subject to the terms and conditions stipulated therein.

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

Grantee	Date of grant	Number of share options				Outstanding at 30 June 2012	Exercisable at 30 June 2012	Exercise period	Exercise price
		Outstanding at 1 January 2012	Granted during the period	Exercised during the period	Forfeited during the period				
(Executive Directors)									
Yu Won Kong, Dennis	11 Jan 2010	22,000,000	-	-	(22,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
	11 Jan 2010	22,000,000	-	-	(22,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.6000
	29 Mar 2012	-	29,500,000	-	-	29,500,000	29,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	29,500,000	-	-	29,500,000	29,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Hui Kee Fung	11 Jan 2010	4,000,000	-	-	(4,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
	11 Jan 2010	4,000,000	-	-	(4,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.6000
	29 Mar 2012	-	6,000,000	-	-	6,000,000	6,000,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	6,000,000	-	-	6,000,000	6,000,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Guo Tianjue	11 Jan 2010	4,000,000	-	-	(4,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
	11 Jan 2010	4,000,000	-	-	(4,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.6000
	29 Mar 2012	-	29,500,000	-	-	29,500,000	29,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	29,500,000	-	-	29,500,000	29,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Lam Kit Sun	11 Jan 2010	4,000,000	-	-	(4,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.4000
	11 Jan 2010	4,000,000	-	-	(4,000,000)	-	-	11 Jan 2010 to 11 Jan 2012	HK\$0.6000
	29 Mar 2012	-	6,000,000	-	-	6,000,000	6,000,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	6,000,000	-	-	6,000,000	6,000,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
(Independent Non-executive Directors)									
Lam Siu Lun, Simon	27 Oct 2009	3,000,000	-	-	-	3,000,000	3,000,000	27 Oct 2010 to 27 Oct 2012	HK\$0.4000
	27 Oct 2009	3,000,000	-	-	-	3,000,000	3,000,000	27 Oct 2011 to 27 Oct 2012	HK\$0.6000
	29 Mar 2012	-	4,500,000	-	-	4,500,000	4,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	4,500,000	-	-	4,500,000	4,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Zhang Xianmin	27 Oct 2009	3,000,000	-	-	-	3,000,000	3,000,000	27 Oct 2010 to 27 Oct 2012	HK\$0.4000
	27 Oct 2009	3,000,000	-	-	-	3,000,000	3,000,000	27 Oct 2011 to 27 Oct 2012	HK\$0.6000
	29 Mar 2012	-	4,500,000	-	-	4,500,000	4,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	4,500,000	-	-	4,500,000	4,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Jin Peihuang	29 Mar 2012	-	4,500,000	-	-	4,500,000	4,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	4,500,000	-	-	4,500,000	4,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Employees	19 Jun 2006	46,742,600	-	-	(164,000)	46,578,600	46,578,600	1 Jan 2007 to 18 Jun 2016	HK\$0.1016
	5 Jul 2007	3,300,000	-	-	-	3,300,000	3,300,000	1 Jul 2008 to 18 Jun 2016	HK\$0.7400
	21 Dec 2009	3,000,000	-	-	-	3,000,000	3,000,000	21 Dec 2010 to 21 Dec 2012	HK\$0.4240
	21 Dec 2009	3,000,000	-	-	-	3,000,000	3,000,000	21 Dec 2011 to 21 Dec 2012	HK\$0.6000
	29 Mar 2012	-	29,500,000	-	-	29,500,000	29,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0644
	29 Mar 2012	-	29,500,000	-	-	29,500,000	29,500,000	29 Mar 2012 to 28 Mar 2015	HK\$0.0773
Total		136,042,600	228,000,000	-	(68,164,000)	295,878,600	295,878,600		

Corporate Governance and Other Information

Purchase, Redemption or Sale of Listed Securities

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

Appreciation

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

By Order of the Board

Kiu Hung Energy Holdings Limited

Hui Kee Fung

Chairman

Hong Kong, 24 August 2012