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福山國際能源集團有限公司
FUSHAN INTERNATIONAL ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 639)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- 2010 interim operating profit of HK\$1,357 million, representing an increase of HK\$152 million or 13% over the same period of 2009.
- 2010 interim net profit after tax of HK\$1,060 million, representing an increase of HK\$140 million or 15% over the same period of 2009.
- 2010 interim net profits attributable to Owners of the Company of HK\$837 million, representing an increase of HK\$68 million or 9% over the same period of 2009.
- 2010 interim gross profit margin achieved at 70%.
- 2010 interim EBITDA¹ of HK\$1,586 million, representing an increase of HK\$170 million or 12% over the same period of 2009.
- 2010 interim basic earnings per share was HK15.56 cents.
- 2010 interim dividend was HK5 cents per share.
- Net assets of HK\$17,758 million as at 30 June 2010.
- Gearing ratio² was 7% as at 30 June 2010.

Note:

1. *EBITDA is defined as operating profit plus depreciation and amortisation.*
2. *Gearing ratio is computed from total borrowings divided by total equity.*

INTERIM RESULTS

The board of directors (the “Board”) of Fushan International Energy Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010. These interim results have been reviewed by the Company’s Audit Committee and its Auditors.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	2,658,740	2,080,794
Cost of sales		(798,565)	(576,058)
		<hr/>	<hr/>
Gross profit		1,860,175	1,504,736
Other operating income	4	51,306	18,218
Selling and distribution expenses		(158,664)	(96,132)
General and administrative expenses		(314,107)	(110,777)
Other operating expenses		(82,160)	(111,097)
		<hr/>	<hr/>
Operating profit		1,356,550	1,204,948
Gain on disposal of a subsidiary	5	–	29,542
Finance costs	6	(34,945)	(98,469)
Change in fair value of derivative financial instruments		(3,500)	–
Share of losses of associates		(279)	(106)
		<hr/>	<hr/>
Profit before income tax	7	1,317,826	1,135,915
Income tax expense	8	(257,576)	(215,828)
		<hr/>	<hr/>
Profit for the period		1,060,250	920,087
Other comprehensive income, net of tax			
Exchange differences on translation of financial statements of foreign operations		152,081	(19,134)
Fair value loss on available-for-sale financial assets		(87,477)	–
		<hr/>	<hr/>
Total comprehensive income for the period		1,124,854	900,953
		<hr/> <hr/>	<hr/> <hr/>

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
<i>Notes</i>	HK\$'000	HK\$'000
Profit attributable to:		
Owners of the Company	836,782	768,506
Non-controlling interest	223,468	151,581
	<u>1,060,250</u>	<u>920,087</u>
Profit for the period	1,060,250	920,087
Total comprehensive income attributable to:		
Owners of the Company	882,026	751,444
Non-controlling interest	242,828	149,509
	<u>1,124,854</u>	<u>900,953</u>
Total comprehensive income for the period	1,124,854	900,953
Earnings per share for profit attributable to Owners of the Company during the period	<i>10</i>	
– Basic	<u>HK15.56 cents</u>	<u>HK16.82 cents</u>
– Diluted	<u>HK15.48 cents</u>	<u>HK16.69 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,733,650	2,535,879
Prepaid lease payments		56,254	56,273
Mining rights		10,287,335	10,289,882
Goodwill		2,105,207	2,080,050
Interests in associates		19,152	19,196
Available-for-sale financial assets		2,157,844	2,214,369
Deposits, prepayments and other receivables		423,750	323,004
Loan to a party	11	468,684	–
Amount due from a party	11	–	937,150
Deferred tax assets		10,574	20,191
		<u>18,262,450</u>	<u>18,475,994</u>
Current assets			
Inventories		151,091	159,485
Trade and bills receivables	12	1,739,636	1,113,647
Deposits, prepayments and other receivables		158,524	196,022
Loan to a party	11	468,683	–
Amounts due from other parties		287,042	376,044
Financial assets at fair value through profit or loss		12,990	25,967
Pledged bank deposits		103,500	105,771
Cash and cash equivalents		2,109,860	2,104,478
		<u>5,031,326</u>	<u>4,081,414</u>

		At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade and bills payables	13	373,049	328,732
Other payables and accruals		1,280,829	1,753,024
Borrowings		280,409	162,420
Amounts due to other parties		32,629	27,526
Amounts due to related companies		12,155	12,008
Amounts due to non-controlling shareholders of subsidiaries		315,670	42,964
Tax payables		208,522	245,695
		<u>2,503,263</u>	<u>2,572,369</u>
Net current assets		<u>2,528,063</u>	<u>1,509,045</u>
Total assets less current liabilities		<u>20,790,513</u>	<u>19,985,039</u>
Non-current liabilities			
Borrowings		1,000,675	643,665
Deferred tax liabilities		2,032,002	2,011,610
		<u>3,032,677</u>	<u>2,655,275</u>
Net assets		<u><u>17,757,836</u></u>	<u><u>17,329,764</u></u>
EQUITY			
Equity attributable to Owners of the Company			
Share capital	14	538,056	537,056
Reserves		15,738,965	15,288,138
		<u>16,277,021</u>	<u>15,825,194</u>
Non-controlling interest		<u>1,480,815</u>	<u>1,504,570</u>
Total equity		<u><u>17,757,836</u></u>	<u><u>17,329,764</u></u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the “Company”) is a limited liability company incorporated and domiciled in Hong Kong. Its registered office address is 6th Floor, Bank of East Asia Harbour View Centre, No. 56 Gloucester Road, Wanchai, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal places of the business of the Company and its subsidiaries (collectively referred to as the “Group”) are in Hong Kong and the People’s Republic of China (the “PRC”).

The principal activities of the Group’s subsidiaries comprise coking coal mining, production and sales of coking coal products and side products. There were no significant changes in the Group’s operations during the period.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited interim financial statements of the Group for the six months ended 30 June 2010 (the “Interim Financial Report”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The Interim Financial Report should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

The Interim Financial Report has been reviewed by our auditors in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The Interim Financial Report was approved for issue by the Board on 26 August 2010.

The Interim Financial Report has been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2009, except for the adoption of the following standards as of 1 January 2010:

HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
Various – Annual Improvements to HKFRSs 2009	

Other than as noted below, the adoption of these new or amended HKFRSs has had no material impact on the Interim Financial Report.

2.1 Adoption of HKFRS 3 Business Combination (Revised 2008) (“HKFRS 3R”)

The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree’s identifiable assets and liabilities, and the measurement of non-controlling interest (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009, but does not have significant impact on the Group’s financial statements in the current period financial positions and performance.

2.2 Adoption of HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The adoption of HKFRS 3R required that the revised HKAS 27 (“HKAS 27R”) is adopted at the same time. HKAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called “minority”) interest and the loss of control of a subsidiary. Similar to HKFRS 3R, the adoption of HKAS 27R is applied prospectively. The adoption of HKAS 27R did not have an impact in the current period financial positions and performance.

2.3 Adoption of Annual Improvements to HKFRSs 2009 (issued in April 2009)

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

3. REVENUE AND SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group’s business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group’s major product and service lines. The Group has identified the following reportable segments:

Coking coal mining :	Mining and exploration of coal resources and production of raw coking coal and clean coking coal in the PRC
Coke production :	Production of coke in the PRC

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as operating approaches.

During the six months ended 30 June 2010, there have been no change from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The revenue and profit generated by each of the Group's operating segments are summarised as follows:

	Coking coal mining		Coke production		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2010	2009	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external parties	<u>2,542,540</u>	2,040,780	<u>116,200</u>	40,014	<u>2,658,740</u>	2,080,794
Segment operating profit/(loss)	<u>1,645,915</u>	1,253,683	<u>(97,114)</u>	(36,301)	<u>1,548,801</u>	1,217,382
Segment assets	<u>18,632,986</u>	18,480,447	<u>458,661</u>	508,014	<u>19,091,647</u>	18,988,461

The Group's segment operating profit reconciles to the Group's profit before income tax as presented in its financial statements as follows:

	Consolidated	
	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit or loss		
Segment operating profit	1,548,801	1,217,382
Share-based compensation	(146,681)	–
Other operating income not allocated	3,645	20
General and administrative expenses not allocated	(49,215)	(12,454)
Gain on disposal of a subsidiary	–	29,542
Finance costs	(34,945)	(98,469)
Change in fair value of derivative financial instruments	(3,500)	–
Share of losses of associates	(279)	(106)
Profit before income tax	<u>1,317,826</u>	<u>1,135,915</u>

4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
Bank interest income on escrow accounts	–	2,012
Other bank interest income	6,312	108
Other interest income	1,702	–
Gain on disposal of property, plant and equipment	293	265
Gain on sales of purchased coal	5,689	–
Gain on sales of scrapped products	22,110	15,425
Net foreign exchange gain	14,851	–
Others	349	408
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	51,306	18,218
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5. GAIN ON DISPOSAL OF A SUBSIDIARY

On 15 January 2009, one of the Group's subsidiaries, Jinshan Energy Group Limited ("Jinshan") completed the disposal of its 70% equity interest in Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng") to a subsidiary of the non-controlling interest of Risheng (the "Disposal") for a cash consideration of Renminbi ("RMB") 110,000,000 (approximately HK\$125,000,000), represented the aggregate consideration payable for the 70% equity interest of Risheng and the assumption of Risheng Loans of HK\$102,000,000 (as defined in the Company's announcement dated 23 April 2008 (the "Announcement")). Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal were set out in the circular of the Company dated 29 December 2008 and the Company's announcement dated 15 January 2009. Since then, Risheng ceased to be a subsidiary of the Company.

On 19 April 2008, Jinshan agreed to assume the Risheng Loans (as defined and described in the Announcement) in Risheng's books due to various creditors and Mr. Wong Lik Ping ("Mr. Wong"), one of the substantial shareholders, agreed to assume the liabilities amounting to RMB35,000,000 (approximately HK\$40,000,000) owed by Jinshan to two creditors for nil consideration upon the completion of the Disposal. Thus, a gain on disposal of Risheng of HK\$29,542,000 was recognised during the six months ended 30 June 2009.

Net assets of Risheng at the completion date of the Disposal on 15 January 2009 were as follows:

	(Unaudited) HK\$'000
Net assets disposed of:	
Property, plant and equipment	164,217
Deposits and other receivables	6
Cash and cash equivalents	115
Amounts due to non-controlling interest	(2,268)
Other payables	(168,762)
	<u>(6,692)</u>
Non-controlling interest	(437)
Liabilities due to two creditors by Jinshan assumed by Mr. Wong	39,694
Gain on disposal of Risheng	29,542
	<u>62,107</u>
Total consideration	<u><u>62,107</u></u>
Satisfied by:	
Cash consideration	124,754
Less: liabilities assumed by Jinshan	(102,341)
	<u>22,413</u>
Liabilities due to two creditors by Jinshan assumed by Mr. Wong	39,694
	<u>62,107</u>
	<u><u>62,107</u></u>
An analysis of net inflow of cash and cash equivalents in respect of the Disposal is as follows:	
Cash consideration	124,754
Cash and cash equivalents disposed	(115)
	<u>124,639</u>
Net inflow of cash and cash equivalents in respect of the Disposal	<u><u>124,639</u></u>

6. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Interest charges on:		
– bank borrowings repayable within five years	29,098	76,162
– other loans wholly repayable within five years	6,674	6,881
– amounts due to non-controlling shareholders of subsidiaries wholly repayable within five years	910	897
– early redemption of bills receivables	4,625	14,321
Finance charges on finance leases	259	208
	<hr/>	<hr/>
	41,566	98,469
<i>Less: interest capitalised in property, plant and equipment*</i>	(6,621)	–
	<hr/>	<hr/>
Total finance costs charged to profit or loss	34,945	98,469
	<hr/> <hr/>	<hr/> <hr/>

* *The borrowing costs were capitalised at the rates ranging from 4% to 5% per annum for the six months ended 30 June 2010 (30 June 2009: Nil).*

7. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2010	2009
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Profit before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	798,565	576,058
Amortisation of		
– prepaid lease payments	708	752
– mining rights	128,443	135,105
Depreciation of property, plant and equipment		
– owned assets	99,725	74,220
– leased assets	831	819
Employee benefit expenses (<i>including directors' remuneration, share-based compensation and retirement benefits scheme contributions</i>)	342,706	123,695
Net foreign exchange (gain)/loss	(14,851)	484
Operating lease charges in respect of land and buildings	11,732	9,163
Write-down of inventories to net realisable value*	16,631	19,307
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* *Included under other operating expenses*

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current tax – PRC income tax	251,932	238,547
Deferred tax	5,644	(22,719)
	<u>257,576</u>	<u>215,828</u>

No provision for Hong Kong Profits Tax has been provided in the Interim Financial Report as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2010 and 2009.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain major subsidiaries, namely Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"), all established in the PRC, are entitled to 50% relief on the income tax in the PRC for three years ending 31 December 2010. Thus, the enterprise income tax rate for the calendar years from 2008 to 2010 is 12.5%. From the calendar year of 2011 onwards, the enterprise income tax rate for these Group's major PRC subsidiaries shall become 25% without any exemption.

The Group is also subject to a withholding tax at the rate of 5% on the distributions of profits generated from the Group's major PRC subsidiaries which are directly owned by the Group's subsidiaries incorporated in Hong Kong (30 June 2009: 10%).

9. DIVIDENDS

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interim dividend of HK5 cents per ordinary share (2009: HK10 cents per ordinary share)	<u>269,028</u>	<u>499,596</u>

The interim dividend of HK5 cents (2009: HK10 cents) per ordinary share declared after 30 June 2010 (2009: 30 June 2009) has not been recognised as a liability at 30 June 2010 (2009: 30 June 2009) in the Interim Financial Report.

The interim dividend for the six months ended 30 June 2010 is expected to be paid on or about Monday, 4 October 2010 to all Owners of the Company whose names appear on the register of members of the Company at the close of business on Friday, 17 September 2010. As at the date of the Interim Financial Report, the number of the issued share capital of the Company is 5,380,563,842.

10. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share attributable to the Owners of the Company are based on the following data:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit attributable to Owners of the Company	836,782	768,506
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,377,498	4,568,042
Effect of dilutive potential ordinary shares: – share options	27,962	36,065
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,405,460	4,604,107

11. LOAN TO A PARTY/AMOUNT DUE FROM A PARTY

Pursuant to the loan agreement dated 13 April 2010 (the “Loan Agreement”) entered into between Jade Green Investments Limited (“Jade Green”) and Mr. Xing Libin (“Mr. Xing”), Jade Green had conditionally agreed to make the loan of HK\$937,367,261 (RMB824,883,190 equivalent) (the “Loan”) to Mr. Xing for offsetting the outstanding liabilities owed by Mr. Xing. The Loan Agreement and the transactions contemplated thereunder have been approved at the extraordinary general meeting of the Company held on 8 June 2010. The Loan was secured by 35% equity interest in Liulin Luenshan Coking Co., Ltd. and dividend rights in respect of 35% equity interest in Jinjiazhuang and 5% equity interests in Zhaiyadi. The Loan shall be repaid in three installments in which (i) 50% of the Loan shall be repaid on 8 June 2011; (ii) 25% of the Loan shall be repaid on 8 December 2011; and (iii) 25% shall be repaid on 8 June 2012. The Loan is subject to floating interest of LIBOR plus a margin of 2.5%. Details of the Loan were disclosed in the circular of the Company dated 4 May 2010.

12. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2010	2009
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade receivables	726,544	557,439
Less: Provision for impairment	(45,408)	(44,859)
	681,136	512,580
Bills receivables	1,058,500	601,067
	1,739,636	1,113,647

Ageing analysis of net trade and bills receivables (net of provision for impairment), based on the invoice dates, is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 – 90 days	1,024,524	832,505
91 – 180 days	513,522	122,023
181 – 365 days	53,818	91,086
Over 365 days	147,772	68,033
	<u>1,739,636</u>	<u>1,113,647</u>

Trade debtors generally have credit terms ranging from 60 to 90 days and no interest is charged.

As at 30 June 2010, no trade receivables were pledged as a security to the banking facilities granted to the Group (31 December 2009: Nil).

13. TRADE AND BILLS PAYABLES

The Group was granted by its suppliers credit periods ranging between 30 and 180 days during the period. Based on the invoice dates, ageing analysis of trade and bills payables as at 30 June 2010 is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 – 90 days	164,747	214,758
91 – 180 days	80,351	26,805
181 – 365 days	42,722	25,435
Over 365 days	85,229	61,734
	<u>373,049</u>	<u>328,732</u>

As at 30 June 2010, bills payables of RMB90,000,000 (HK\$103,500,000 equivalent) (31 December 2009: RMB90,300,000 (HK\$102,590,000 equivalent)) were secured by pledged bank deposits of RMB90,000,000 (HK\$103,500,000 equivalent) (31 December 2009: RMB93,100,000 (HK\$105,771,000 equivalent)).

14. SHARE CAPITAL

	Number of shares		Amount	
	30 June 2010 (Unaudited) '000	31 December 2009 (Audited) '000	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	10,000,000	10,000,000	1,000,000	1,000,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.10 each				
At 1 January	5,370,563	4,564,555	537,056	456,456
Placing of shares	–	400,000	–	40,000
Issue of shares as consideration shares	–	323,008	–	32,300
Issue of new shares upon conversion of share options	10,000	83,000	1,000	8,300
At 30 June/31 December	5,380,563	5,370,563	538,056	537,056

15. COMMITMENTS

(a) Operating lease commitments

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	30 June 2010 Land and buildings (Unaudited) HK\$'000	31 December 2009 Land and buildings (Audited) HK\$'000
Within one year	9,074	10,684
In the second to fifth years	24,886	25,520
After five years	141,702	131,302
	175,662	167,506

The Group leases certain land and buildings under operating lease arrangements. The leases are with initial terms of 1 to 50 years and do not carry any option to renew. None of the leases include contingent rental.

(b) Capital commitments

Capital commitments of the Group at 30 June 2010 are as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Contracted but not provided for:		
– acquisition of property, plant and equipment	415,514	357,541
– exploration and design fees for a potential mining project	8,602	8,498
	424,116	366,039

(c) Other commitments

In accordance with a notice issued by the Liulin County Government of Shanxi Province (Liufa [2008] No.31), certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay donation for the construction of modern schools in Liulin County and provision of education facilities from 2009 to 2011. Such donation is recognised in profit or loss in the corresponding year. Management expects that payments of RMB55,000,000 (approximately HK\$63,250,000) and RMB110,000,000 (approximately HK\$126,500,000) will be payable in the second half of 2010 and the year of 2011.

16. FINANCIAL GUARANTEE CONTRACTS

As at 30 June 2010, Xingwu has given guarantees with respect to the bank loans, denominated in RMB282,000,000 (31 December 2009: RMB282,000,000) to two (31 December 2009: two) long-term independent customers. Under these guarantees, Xingwu is liable to pay the banks if the banks are unable to recover the respective loans from these customers.

As at 30 June 2010, bank borrowing denominated in US\$100,000,000 is secured by (i) guarantees, share pledged and undertaking provided by Jade Green, Thechoice Finance Limited (“Thechoice”), Worldman Industrial Limited (“Worldman”), Gumpert Industries Limited (“Gumpert”), Thechoice Finance (HK) Limited (“Thechoice (HK)”), Worldman Industrial (HK) Limited (“Worldman (HK)”) and Gumpert Industries (HK) Limited (“Gumpert (HK)”); and (ii) the negative share pledge of Xingwu, Jinjiazhuang and Zhaiyadi provided by Thechoice, Worldman and Gumpert respectively. Thus, Jade Green, Thechoice, Worldman, Gumpert, Thechoice (HK), Worldman (HK) and Gumpert (HK) would be liable to pay the bank if the bank is unable to recover this loan. In addition, Shougang Holding (Hong Kong) Limited had provided a letter of comfort to the bank for this bank borrowing.

As at 30 June 2010, no provision for the Group’s obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the respective loans will be in default.

17. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, one of the guarantees amounting to RMB200,000,000 given by Xingwu, as disclosed in note 16 to the interim consolidated financial statements has been expired and released.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK5 cents per share for the six months ended 30 June 2010 (2009: HK10 cents per share) payable to shareholders whose names appear on the register of members of the Company on Friday, 17 September 2010. The interim dividend is expected to be paid on or about Monday, 4 October 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 16 September 2010 to Friday, 17 September 2010 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 15 September 2010 for registration.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

China's economy had maintained its robust growth in the first half of 2010 with GDP increased by 11.1% year-on-year. The economy showed signs of overheating, so the government launched a series of macroeconomic measures to ensure the growth was in a sustainable manner. These new measures caused a slowdown in the real estate sector, as a result, steel industry also suffered from price pressure in the second quarter. However, the supply of coking coal from China in the past few years was tight due to structural shortages and policies launched to consolidate coal resources in some major mine provinces also create a shortage of coal supply. During the period under review, the price of international coking coal increased significantly, this drove up the price of China's domestic coal price by 18% during the period.

Accordingly, during the first half of 2010, the Group's average realised selling price of raw coking coal increased by 34% to Renminbi ("RMB") 803 (inclusive of VAT) when compared with the same period of 2009 (the first half of 2009: RMB600) and the Group's average realised clean coking coal increased by 30% to RMB1,707 (inclusive of VAT) when compared with the same period of 2009 (the first half of 2009: RMB1,311).

BUSINESS REVIEW

The Group continues implementation of active measures to increase its competitive efficiency and strengthen the development of clean coking coal business. The Group is also actively expanding and deepening its networks with various major mainland steel mills. During the first half of 2010, the sales to Hebei Iron and Steel Group, the largest steel mill in China which is the largest customer of the Group, accounted for 34% of the Group's turnover. Shougang Group, Inner Mongolia Baotou Steel Union Company and Datuhe (Shanxi) Coking & Chemicals Co., Ltd. are still our important long term customers and strategic partners.

In the second quarter of 2009, a Jinjiazhuang coal preparation plant was formally put into commercial operation. The Group currently has annual input processing capacity up to 4.2 million tonnes. To further expand the input processing capacity, the Group is constructing two new coal preparation plants which are adjacent to our other mines. These coal preparation plants are planned to complete construction and commence production by the end of 2010 and 2011. The Group's annual input processing capacity is expected to reach 11 million tonnes accordingly.

During the period under review, the three quality coal mines of the Group (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) located in Liulin County, Shanxi Province, operated smoothly and maintained excellent safety record.

During the first half of 2010, the Group produced approximately 2.96 million tonnes (the first half of 2009: 3.25 million tonnes) of raw coking coal, representing a year-on-year decrease of 9% and approximately 0.68 million tonnes (the first half of 2009: 0.45 million tonnes) of clean coking coal, representing a year-on-year increase of 51%. The decrease in raw coal production of 9% was solely arising from the renewal of support facilities at the three coal mines in the second quarter of the year in order to raise its production efficiency and to provide a better working environment to miners. Operations of all mines had resumed and it is expected normal production in the second half of the year.

The Company was not only selected as a constituent in the MSCI Emerging Markets Index and the Hang Seng Composite Index in 2009, but was also added to the Xinhua FTSE HK Index in March this year. These reflected the Group is widely acclaimed by investors and markets.

FINANCIAL REVIEW

For the six months ended 30 June 2010, the Group recorded a turnover of approximately HK\$2,659 million, representing an increase of approximately HK\$578 million or 28% as compared with that of approximately HK\$2,081 million for the same period of 2009. The growth in turnover was mainly attributable to the increase in realised selling price of coking coal. Average realised selling price (inclusive of VAT) of raw coking coal and clean coking coal were RMB803 (the first half of 2009: RMB600) and RMB1,707 (the first half of 2009: RMB1,311) respectively during the first half of 2010, representing a year-on-year increase of 34% and 30% respectively. The increase in realised selling price fully offset the effect of 9% decrease in production of raw coking coal volume from 3.25 million tonnes for the same period of 2009 to 2.96 million tonnes for the period under review. For the first half of 2009, sales volume of raw coking coal and clean coking coal were 1.81 million tonnes (the first half of 2009: 2.65 million) and 0.66 million tonnes (the first half of 2009: 0.42 million) respectively. In terms of turnover, sales of raw coking coal, clean coking coal and coke accounted for 54%, 42% and 4%, respectively of the Group's turnover in the first half of 2010 compared against 74%, 24% and 2%, respectively for the same period of 2009.

In addition, the Group recorded an increase in net profit of HK\$140 million or 15% from approximately HK\$920 million for the six months ended 30 June 2009 to approximately HK\$1,060 million for the six months ended 30 June 2010. For the six months ended 30 June 2010, the Group recorded net profit attributable to the owners of the Company (the “Owners”) of approximately HK\$837 million and earnings of HK15.56 cents per share.

For the six months ended 30 June 2010, the Group incurred non-cash share-based compensation expenses of HK\$147 million arising from the granting of share option by the Company in August 2009. The Group’s net profit and profit attributable to the Owners would have been HK\$1,207 million and HK\$984 million, respectively, if such expenses were excluded, representing a year-on-year increase of 31% and 28%, respectively.

Cost of Sales

During the period under review, cost of sales was approximately HK\$799 million, representing an increase of approximately HK\$223 million or 39%, as compared with that of approximately HK\$576 million for the same period of 2009. The increase was due to (i) the increase in staff costs from HK\$92 million in 2009 to HK\$134 million in 2010 as a result of the adjustment of staff wages in order to maintain the competitive advantage in the labour market and to retain quality management and staff; (ii) the additional levies of land restoration fee and mine resources compensation fee amounted to HK\$26 million in 2010; (iii) increase in depreciation of property, plant and equipment from HK\$54 million in 2009 to HK\$79 million in 2010, representing an increase of approximately HK\$25 million or 46% over the same period of 2009. The increase was mainly attributable to the completion of a Jinjiazhuang coal preparation plant in June 2009. During the period under review, additions of property, plant and equipment amounted to approximately HK\$268 million; and (iv) the increase in material costs as a result of the increase in sales of coke production from 31,000 tonnes in 2009 to 73,000 tonnes in 2010.

Included in cost of sales, amortisation of mining rights was approximately HK\$128 million for the six months ended 30 June 2010 (for the six months ended 30 June 2009: HK\$135 million). The decrease in amortisation of mining rights is solely due to the decrease in production of raw coking coal of 9% in this period.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the six months ended 30 June 2010 was approximately HK\$1,860 million, representing an increase of approximately HK\$355 million or 24% as compared with that of approximately HK\$1,505 million for the same period of 2009. Gross profit margin achieved at 70% during the period under review and 72% for the same period of 2009.

Even though the average realised selling prices in the first half of 2010 were higher than that in the same period of 2009, gross profit margin decreased due to (1) the increase in gross loss on coke production that accounted for 4% of the Group's turnover; and (2) during the period, the increase in unit cost of raw coking coal was attributable by (i) increase in average unit cost as a result of the decrease in production volume of raw coal from approximately 3.25 million tonnes in the first half of 2009 to 2.96 million tonnes in the first half of 2010 due to temporary closed down production during the change of the long wall in our mines in the second quarter of 2010; and (ii) the increase in labour cost, depreciation and additional levies as mentioned in the above under "Cost of Sales".

Other Operating Income

During the period under review, other operating income was approximately HK\$51 million, representing an increase of approximately HK\$33 million or 183% as compared with that of approximately HK\$18 million for the same period of 2009. The increase was mainly attributable to the increase on sales of scrapped products generated from the newly constructed coal preparation plant in June 2009, gain on trading of clean coking coal and the exchange gain on re-translation of receivables denominated in RMB.

Selling and Distribution Expenses

During the period under review, selling and distribution expenses were approximately HK\$159 million, representing an increase of approximately HK\$63 million or 66% as compared with that of approximately HK\$96 million for the same period of 2009. The increase was mainly a result of the substantial increase in transportation costs arising from the increase in sales volume of clean coking coal from 0.42 million in the first half of 2009 to 0.66 million in the first half of 2010.

General and Administrative Expenses

During the period under review, administrative expenses were approximately HK\$314 million, representing an increase of approximately HK\$203 million or 183% as compared with that of approximately HK\$111 million for the same period of 2009. The increase was a result of (i) the non-cash share-based compensation expenses approximately HK\$147 million arising from the granting of 281,050,000 share options to eligible participants by the Company in August 2009 as disclosed in the annual report of the Company for the year ended 31 December 2009 (the "Annual Report 2009"); (ii) the increase in directors' remuneration and staff costs by approximately HK\$30 million during the period under review; and (iii) the increase in professional fees by approximately HK\$8 million mainly for potential acquisition projects during the period under review.

Other Operating Expenses

During the period under review, other operating expenses were approximately HK\$82 million, which were mainly the charitable donation of HK\$64 million made during the period under review by the Group to the Liulin Provincial Government for the construction of modern schools and provision of education facilities as disclosed in the Annual Report 2009.

Finance Costs

During the period under review, finance costs were approximately HK\$35 million, representing a substantial decrease of approximately HK\$63 million or 64% as compared with that of approximately HK\$98 million for the same period of 2009. The decrease in finance costs was due to the substantial decrease in the average interest rate charge on the bank borrowings from approximately 13% in the first half of 2009 to approximately 6% in the first half of 2010. During the period under review, HK\$6.6 million borrowing costs were capitalised in the property, plant and equipment.

Income Tax Expense

During the period under review, income tax expense was approximately HK\$258 million, of which approximately HK\$55 million represented the provision of withholding tax of 5% on the dividend declared from the three quality coking coal mines in accordance with the tax regulations in the PRC.

Owner's Attributable Profit

As a result of the reasons above, the net profits attributable to the Owners in the period under review was approximately HK\$837 million, representing an increase of approximately HK\$68 million or 9% as compared with that of approximately HK\$769 million for the same period of 2009.

Material Investments and Acquisitions

During the six months ended 30 June 2010, the Group had no material investments and acquisition. However, during the period under review, a wholly-owned subsidiary of the Company further acquired 3,000,000 equity shares of Mount Gibson Iron Limited ("Mount Gibson") at total cost of approximately HK\$30 million. As at 30 June 2010, the Group holds approximately 14.56% equity interest in Mount Gibson directly.

Material Disposals

During the six months ended 30 June 2010, the Group had no material disposal.

Safety Production and Environmental Protection

The Group has always been paying great attention to production safety and environmental protection while achieving growth in coal production. Thus, the Group made great efforts in promoting safety management and strengthened measures for environmental protection, aiming to build itself into a safety-oriented and environmentally-friendly enterprise. During the period under review, the coal mines of the Group operated smoothly and recorded no material safety incidents.

Charges on Assets

As at 30 June 2010, save for bank deposits of approximately HK\$104 million that were used for securing bills facilities of approximately HK\$104 million and the pledge of shares by certain subsidiaries of the Company namely Jade Green Investments Limited, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited, Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited that were used for securing US\$100 million of bank loan of the Group, none of the Group's assets were charged or subject to any encumbrance.

Contingent Liabilities

As at 30 June 2010, save for the guarantees given by a subsidiary of the Company in the PRC, namely Shanxi Liulin Xingwu Coal Co., Limited amounting to approximately RMB282 million (HK\$324 million equivalent) for certain bank loans granted to two long-term independent customers and the guarantees given by the Company amounting to approximately RMB400 million (HK\$460 million equivalent) for bank facilities granted to certain subsidiaries of the Company, there were no guarantees given to any banks or financial institutions by the Group. As at 30 June 2010, there was no default in the repayment of the respective loans.

Gearing Ratio

As at 30 June 2010, gearing ratio of the Group, computed from the Group's borrowings divided by the total equity, was approximately 7%. The total borrowings amounted to approximately HK\$1,281 million as at 30 June 2010.

Exposure to Fluctuations in Exchange Rates

As at 30 June 2010, other than assets and liabilities denominated in RMB and Australian Dollars, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 30 June 2010, the Group's current ratio (current assets divided by current liabilities) was approximately 2.01 and the Group's cash and bank deposits amounted to approximately HK\$2,213 million, of which approximately HK\$104 million was deposited mainly to secure bills facilities of approximately HK\$104 million.

Included in trade and bills receivables, the Group has total bills receivables amounting to approximately HK\$1,059 million as at 30 June 2010 that are readily convertible into cash, but are subject to finance cost when conversion before the maturity.

Capital Structure

The Group considers total equity, bank loans and other borrowings as capital. As at 30 June 2010, the amount of capital was approximately HK\$19,039 million.

As at 30 June 2010, the issued capital of the Company was approximately HK\$538 million, represented approximately 5,381 million shares in number. The Company issued 10 million shares with par value of HK\$0.1 each at an exercise price of HK\$1.5 per share upon the exercise of the granted options during the period under review.

As at 30 June 2010, the total borrowings of the Group amounted to approximately HK\$1,281 million which denominated in USD and RMB. The USD borrowing of approximately HK\$766 million which is subject to an interest calculated at LIBOR plus 1.85% per annum and is repayable by 13 installments during the period from September 2010 to September 2013. The RMB borrowings of approximately HK\$460 million are subject to floating interest rate adopted by the People's Bank of China and is repayable in March 2012. The remaining balances of borrowings of approximately HK\$55 million are subject to fixed interest rates and are repayable from 1 to 3 years from 30 June 2010.

Employees

As at 30 June 2010, the Group had 19 Hong Kong employees and 6,191 PRC employees. The remuneration package of the employees are subject to annual review. The Group provides a mandatory provident fund scheme for its employees in Hong Kong and the state-sponsored retirement plan for its employees in PRC.

The Group has also adopted a share option scheme since 20 June 2003. During the period under review, no share option was granted.

FUTURE PROSPECTS

Looking ahead, management believes that the coking coal industry will face challenges in the second half of this year. As the domestic real estate market and automobile sectors will still be affected by various uncertainties, the outlook for the steel industry will remain difficult. Coking coal as a major raw material for making steel, will inevitably be affected. On the other hand, the supply of hard coking coal in China will remain tight. Since the first half of this year, Henan Province, being one of the major coal production bases, had carried out coal mines consolidation and it is expected that other provinces are likely to follow. These measures are aimed at improving the competitiveness of local coal enterprises and to ensure that coal production is conducted in a safe manner. With limited new coal mines being developed and the reduction of supply during the coal mines consolidation, we believe domestic coking coal prices will remain stable in the foreseeable future.

It is our long term objective to set our solid foundation in Shanxi Province and to expand the coking coal business in a prudent manner. Not only do we pay great attention to ensure production safety, but we also cautiously look for suitable acquisition opportunities to enlarge our market share and influence, with an aim of ultimately achieving greater economies of scale through our synergies. With new coal processing plants coming into operation, we will further expand our clean coal operations and maintain good relationships with major domestic steelmakers. At the same time, we will strengthen our corporate governance and exercise stringent cost control. We will enhance operational management and production efficiency to maximise returns for our shareholders.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30 June 2010, except for the following deviation:

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

The Chairman of the Board had not attended the annual general meeting of the Company held on 8 June 2010 (the "Meeting") as he had another business engagement. The Vice Chairman and Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with majority of members of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board
Wang Pingsheng
Chairman

Hong Kong, 26 August 2010

As at the date of this announcement, the Board comprises Mr. Wang Pingsheng (Chairman), Mr. Chen Zhouping (Vice Chairman and Managing Director), Mr. Wong Lik Ping (Vice Chairman), Mr. So Kwok Hoo (Deputy Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Xue Kang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Zhang Yaoping (Non-executive Director), Mr. Zhang Wenhui (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director) and Mr. Chan Pat Lam (Independent Non-executive Director).