



福山國際能源集團有限公司  
Fushan International Energy Group Limited

(Stock Code: 639)

INTERIM REPORT  
2007

## INTERIM RESULTS

The board of directors (the “Directors”) of Fushan International Energy Group Limited (the “Company”) announces that the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2007 (the “period”) together with the unaudited interim results for the six months ended 30th June 2006 for comparison are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2007

		<b>Six months ended 30th June</b>	
		<b>2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000
	<i>Notes</i>		
<b>Revenue</b>	2	<b>3,957</b>	2,799
Cost of sales	4	<u>(2,868)</u>	<u>(2,013)</u>
<b>Gross profit</b>		<b>1,089</b>	786
Other operating income		<b>6,029</b>	163
Administrative expenses		<b>(19,761)</b>	(13,161)
Other operating expenses		<u>(2,863)</u>	<u>(2,762)</u>
<b>Operating loss</b>		<b>(15,506)</b>	(14,974)
Finance costs	3	<u>(17,953)</u>	<u>(3,769)</u>
<b>Loss before income tax</b>	4	<b>(33,459)</b>	(18,743)
Income tax expense	5	<u>–</u>	<u>–</u>
<b>Loss for the period</b>		<b><u>(33,459)</u></b>	<b><u>(18,743)</u></b>
<b>Attributable to:</b>			
Equity holders of the Company		<b>(26,777)</b>	(12,137)
Minority interest		<u>(6,682)</u>	<u>(6,606)</u>
<b>Loss for the period</b>		<b><u>(33,459)</u></b>	<b><u>(18,743)</u></b>
<b>Loss per share for loss attributable to the equity holders of the Company during the period</b>	6		
– Basic		<b>HK(1.22 cents)</b>	HK(0.58 cents)
– Diluted		<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2007

	Notes	As at 30th June 2007 (Unaudited) HK\$'000	As at 31st December 2006 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	302,924	255,276
Leasehold land and land use rights		17,357	17,164
Goodwill		–	–
Interest in an associate		–	–
Prepayments and deposits	8	255,813	227,934
		<b>576,094</b>	500,374
<b>Current assets</b>			
Inventories		–	–
Trade receivables	9	–	3
Prepayments, deposits and other receivables		7,862	6,154
Bank deposit at Escrow Account	10	289,715	–
Cash and cash equivalents		416,116	10,573
		<b>713,693</b>	16,730
<b>Current liabilities</b>			
Other payables		56,073	29,812
Bank loan		51,590	49,963
Other loans	11	39,157	89,882
Amount due to a minority equity holder of a subsidiary	12	2,064	1,998
Amount due to ultimate holding company	13	–	10,000
Derivative liability of convertible notes	14	61,688	–
		<b>210,572</b>	181,655
<b>Net current assets/(liabilities)</b>		<b>503,121</b>	(164,925)
<b>Total assets less current liabilities</b>		<b>1,079,215</b>	335,449
<b>Non-current liabilities</b>			
Other loans	11	150,236	141,995
Convertible notes	14	239,742	–
Amounts due to related companies	15	24,432	25,820
Amounts due to minority equity holders of subsidiaries	16	141,657	68,054
		<b>556,067</b>	235,869
<b>Net assets</b>		<b>523,148</b>	99,580
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	17	231,080	208,080
Reserves		255,309	(150,534)
		<b>486,389</b>	57,546
<b>Minority interest</b>		<b>36,759</b>	42,034
<b>Total equity</b>		<b>523,148</b>	99,580

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2007

	Notes	Six months ended 30th June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash used in operating activities		(10,271)	(16,021)
Net cash used in investing activities		(25,429)	(59,717)
Net cash generated from financing activities		<u>440,467</u>	<u>82,106</u>
Net increase in cash and cash equivalents		404,767	6,368
Cash and cash equivalents at 1st January		10,573	10,587
Effect of foreign exchange rate changes, on cash held		<u>776</u>	<u>–</u>
Cash and cash equivalents at 30th June		<u><b>416,116</b></u>	<u><b>16,955</b></u>
<b>Analysis of balances of cash and cash equivalents:</b>			
Deposits with banks		583,344	3,011
Cash at bank and on hand		122,487	13,944
Less: Bank deposit at Escrow Account	10	<u>(289,715)</u>	<u>–</u>
		<u><b>416,116</b></u>	<u><b>16,955</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2007

	Equity attributable to equity holders of the Company					Total	Minority interest	Total equity	
	Share capital	Share premium	Accumulated losses	Share-based	Translation				Total
				compensation reserve	reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1st January 2007 (audited)	208,080	399,169	(566,219)	12,953	3,563	57,546	42,034	99,580	
Issued new shares (unaudited)	23,000	420,530	-	-	-	443,530	-	443,530	
Share-based compensation (unaudited)	-	-	-	9,715	-	9,715	-	9,715	
Exchange difference on translation of the financial statements of foreign entities (unaudited)	-	-	-	-	2,375	2,375	1,407	3,782	
Loss for the period (unaudited)	-	-	(26,777)	-	-	(26,777)	(6,682)	(33,459)	
Total recognised income and expense for the period (unaudited)	-	-	(26,777)	-	2,375	(24,402)	(5,275)	(29,677)	
<b>At 30th June 2007 (unaudited)</b>	<b>231,080</b>	<b>819,699</b>	<b>(592,996)</b>	<b>22,668</b>	<b>5,938</b>	<b>486,389</b>	<b>36,759</b>	<b>523,148</b>	
At 1st January 2006 (audited)	208,080	399,169	(535,231)	-	1,167	73,185	54,276	127,461	
Share-based compensation (unaudited)	-	-	-	3,238	-	3,238	-	3,238	
Loss for the period (unaudited)	-	-	(12,137)	-	-	(12,137)	(6,606)	(18,743)	
At 30th June 2006 (unaudited)	208,080	399,169	(547,368)	3,238	1,167	64,286	47,670	111,956	

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation of financial statements and accounting policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial statements of the Group should be read in conjunction with the annual financial statements for the year ended 31st December 2006.

The accounting policies adopted and the basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2006 except for the adoption of the amendments and interpretations issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2007. The effect of the adoption of these amendments and interpretations had no significant effect on the results and financial position of the Group for the six months ended 30th June 2007.

### 2. Revenue and segmental information

The Group is principally engaged in production and sales of coking coal products and side products and sales of jewellery products. An analysis of the Group’s revenue, segment results and loss for the period by principal activities and markets was as follows:

	Revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2007 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2007 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000
<b>Principal activities:</b>				
Sales of coal products	3,157	2,298	289	285
Production of coke products*	–	–	(6,375)	(8,615)
Sales of jewellery products	800	501	800	501
Unallocated expenses	–	–	(10,220)	(7,145)
	<u>3,957</u>	<u>2,799</u>	<u>(15,506)</u>	<u>(14,974)</u>
Finance costs			<u>(17,953)</u>	<u>(3,769)</u>
<b>Loss for the period</b>			<u><b>(33,459)</b></u>	<u><b>(18,743)</b></u>
<b>Principal markets:</b>				
The Mainland	3,157	2,298	(6,086)	(8,330)
Hong Kong	800	501	(9,420)	(6,644)
	<u>3,957</u>	<u>2,799</u>	<u>(15,506)</u>	<u>(14,974)</u>

\* Not yet commenced operation

In the second half year of 2006, the Directors decided to cease the business of jewellery (“the jewellery segment”) due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery was completed during the period. As at 30th June 2007, other than the intra-company balances, no other assets and liabilities were remained in relation to the jewellery segment. As a result, no gain or loss arose on cessation of the jewellery segment. During the six months ended 30th June 2007, the business of jewellery sales had generated cash inflows from operating activities of HK\$800,000 (six months ended 30th June 2006: HK\$501,000), and there were no cash flows from investing and financing activities for the jewellery segment for the six months ended 30th June 2007 and 2006.

### 3. Finance costs

	Six months ended 30th June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest charges on:		
– Bank loans and overdrafts repayable within five years	1,525	1,647
– Other loans wholly repayable within five years	11,734	8,270
– Convertible notes wholly repayable within five years	5,677	–
	<hr/>	<hr/>
Total borrowing costs	18,936	9,917
Less: Interest capitalised to construction in progress*	(7,093)	(6,148)
	<hr/>	<hr/>
	11,843	3,769
Fair value loss on derivative liability of convertible notes	6,110	–
	<hr/>	<hr/>
	<b>17,953</b>	<b>3,769</b>
	<hr/>	<hr/>

\* The borrowing costs have been capitalised at rates of 6.00 % to 8.00% per annum (six months ended 30th June 2006: 6.00% to 8.00% per annum).

#### 4. Loss before income tax

	<b>Six months ended 30th June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	<b>3,668</b>	27,763
Less: Provision for inventories written back upon disposal	<b>(800)</b>	(25,750)
	<hr/>	<hr/>
Cost of sales	<b>2,868</b>	2,013
	<hr/>	<hr/>
Staff costs ( <i>including directors' remuneration, share-based compensation expense and retirement benefits scheme contributions</i> )	<b>14,522</b>	7,042
Depreciation of property, plant and equipment	<b>1,547</b>	1,380
Less: Amount capitalised to construction in progress	<b>(270)</b>	(37)
	<hr/>	<hr/>
	<b>1,277</b>	1,343
	<hr/>	<hr/>
Amortisation of operating lease prepayments	<b>222</b>	212
Operating leases charges in respect of land and buildings	<b>419</b>	317
Other operating expenses		
– transaction costs for derivative liability of convertible notes	<b>2,355</b>	–
– exploration costs incurred for a mining project	–	1,406
Other operating income		
– bank interest income	<b>(5,797)</b>	(163)
	<hr/>	<hr/>

#### 5. Income tax expense

No provision for Hong Kong profits tax and the PRC income tax has been made in the interim financial statements in respect of the Company and its subsidiaries for the period (six months ended 30th June 2006: Nil), as the Company and its subsidiaries either have substantial unrecognized accumulated tax losses brought forward which are available for setting off against current period's assessable profits or incurred tax losses for the period.

As at 30th June 2007, no deferred tax liabilities have been provided (31st December 2006: Nil) as the amount involved was immaterial and no deferred tax assets have been recognised (31st December 2006: Nil) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.



## 6. Loss per share

### (a) Basic

The calculation of basic loss per share is based on the consolidated loss attributable to the equity holders of the Company for the six months ended 30th June 2007 of HK\$26,777,000 (six months ended 30th June 2006: HK\$12,137,000) and the weighted average number of 2,195,165,000 (six months ended 30th June 2006: 2,080,800,000) ordinary shares in issue during the period.

### (b) Diluted

Diluted loss per share for the six months ended 30th June 2007 and 2006 was not presented because the impact of the exercise of the share options and the conversion of the convertible notes were anti-dilutive.

Subsequent to the balance sheet date and up to the date of the interim report, the Notes with principal amount of HK\$65,000,000 were converted into 27,896,993 fully paid up ordinary shares. As a result, the Company's issued ordinary shares have increased and potential ordinary shares have decreased. The details of the transactions are set out in Note 21(b) to the interim financial statements.

## 7. Property, plant and equipment

During the period, the Group acquired property, plant and equipment at a total cost of HK\$40,321,000 (31st December 2006: HK\$24,607,000) in relation to the construction in progress for two coke plants and a mining project.

## 8. Prepayments and deposits

Included in prepayments and deposits of the Group were (a) prepayment of HK\$154,837,000 (31st December 2006: HK\$144,138,000) paid for a mining project; and (b) prepayments of HK\$100,976,000 (31st December 2006: HK\$83,796,000) paid for the construction and installation of certain property, plant and machinery in relation to two coke plants.

## 9. Trade receivables

General credit terms of the Group range from 60 to 90 days. At 30th June 2007, the ageing analysis of the trade receivables (net of specific provision for impairment of receivables) was as follows:

	<b>As at 30th June 2007 (Unaudited) HK\$'000</b>	As at 31st December 2006 (Audited) HK\$'000
0 – 30 days	<u>–</u>	<u>3</u>

## 10. Bank deposit at Escrow Account

The net proceeds from the convertible notes issued on 20th April 2007 were deposited at the Escrow Account pending the fulfillment of the Conditions Subsequent as disclosed in Note 14 to the interim financial statements. As at 30th June 2007, the Company has not yet fulfilled the Conditions Subsequent.

## 11. Other loans

At 30th June 2007, other loans were repayable as follows:

	<b>As at 30th June 2007 (Unaudited) HK\$'000</b>	As at 31st December 2006 (Audited) HK\$'000
Current portion – within 1 year	<b>39,157</b>	89,882
Non-current portion – between 1 and 2 years	<b>150,236</b>	141,995
	<b>189,393</b>	231,877

At 30th June 2007, other loans, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 5.49% to 12.00% per annum (31st December 2006: 5.49% to 12.00% per annum). As at 30th June 2007, non-current accrued interest payables of HK\$15,587,000 (31st December 2006: HK\$10,594,000) are repayable together with the principal debts on the maturity dates.

## 12. Amount due to a minority equity holder of a subsidiary

The amount denominated in RMB, is unsecured, interest-free and repayable on demand.

## 13. Amount due to ultimate holding company

The amount due to ultimate holding company is unsecured, interest-free and repayable on demand.

## 14. Convertible notes

The zero coupon convertible notes were issued on 20th April 2007 (“the Notes”) by a wholly-owned subsidiary, Maxease Limited (the “Issuer”), and are guaranteed on a joint and several basis by the Company and Mr. Wong Lik Ping who is a substantial shareholder and also a director of the Company. The Notes are convertible into fully paid ordinary shares of the Company with a par value of HK\$0.10 at the initial conversion price of HK\$2.33 (the “Conversion Price”) per share at any time following the issue of the Notes until 10 business days prior to the maturity date on 19th April 2012.

The Conversion Price will be adjusted on each of the first and second anniversaries of the issue date if the Company’s volume weighted average trading price over the preceding calendar month (the “Reference Price”) is less than 85% of the Conversion Price then in effect. The adjusted Conversion Price will be equal to the Reference Price, provided that any adjustment of the Conversion Price pursuant to the reset on a cumulative basis will be limited to 80% of the initial Conversion Price (i.e. HK\$1.864). The conversion will be also subject to dilutive effect adjustments.

On the date falling 12 months following the issue date of the Notes if, by such date, the Company has not either invested into greenfield coalmine with the appropriate and necessary mining rights, or purchased coal mine assets that are already in operation (“Condition Subsequent”), the Notes may be redeemed at the option of the Noteholders a price that is equivalent to a yield of 7.5% per annum on a semi-annual basis (the “Early Redemption Price”). The net proceeds of the Notes are currently deposited at the escrow account (“Escrow Account”) pending the fulfillment of the Conditions Subsequent. As at 30th June 2007, the Company has not yet fulfilled the Conditions Subsequent.

On the date falling 36 months following the issue date of the Notes, the Notes may be redeemed at the option of the Noteholders at 124.7179% of their principal value which will enable Noteholders to obtain a yield of 7.5% per annum on a semi-annual basis. At any time after the 36th month of the issue date of the Notes, the Issuer may redeem the Notes, in whole or in part at any time, at the Early Redemption Price; provided that the trading price of the Company's shares exceeds 140% of the Conversion Price for a consecutive period of not less than 30 trading days. If at least 90% of the Notes have been converted, redeemed, repurchased or cancelled, the Company is entitled to have clean-up call at the Early Redemption Price. Furthermore, the Notes may be redeemed at the option of the Issuer, in whole but not in part at any time, at the Early Redemption Price, in the event that the Issuer or the Company would be required to pay additional amounts in respect of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong (or any other taxing jurisdiction to which the Issuer or the Company becomes subject) in relation to taxes or any change in the official interpretation thereof.

Unless previously redeemed, converted or purchased and cancelled, the Notes shall be redeemed on the maturity date on 19th April 2012 at 144.5044% of their principal value, which shall give the Notes a yield equal to 7.5% per annum on a semi-annual basis from the time of issue on 20th April 2007.

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component, included in the convertible notes. The derivative component is subsequently remeasured, the gain or loss on remeasurement to fair value is charged immediately to profit or loss. The liability component is subsequently carried at amortised cost.

The movements in convertible notes during the period are analysed as follows:

	As at 30th June 2007				As at 31st December 2006
	Face value (Unaudited) HK\$'000	Liability component (Unaudited) HK\$'000	Derivative component (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	(Audited) HK\$'000
At 1 January	-	-	-	-	-
Additions	300,000	244,422	55,578	300,000	-
Transaction costs	-	(10,357)	-	(10,357)	-
Interest expenses	-	5,677	-	5,677	-
Fair value loss on derivative liability of convertible notes	-	-	6,110	6,110	-
At 30th June/31st December	<u>300,000</u>	<u>239,742</u>	<u>61,688</u>	<u>301,430</u>	-

The fair value of the derivative liability of the convertible notes is calculated using the Monte Carlo Simulation Model with the major inputs as at 30th June 2007 as follows:

Stock price	HK\$3.19
Exercise price	HK\$2.33
Volatility	61.34%
Risk free rate	4.62%

As the Monte Carlo Simulation Model requires the input of highly subjective assumptions, including volatility of share price, change in subjective input assumptions can materially affect the fair value estimate.

During the period, as there was a significant increase in the share price of the Company, the fair value of derivative liability of the convertible notes increased accordingly, resulting in a fair value loss of HK\$6,110,000, which was charged in the consolidated income statement.

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 12.15% to the liability component.

#### 15. Amounts due to related companies

The amounts due to related companies, denominated in RMB, in which a substantial equity holder of the Company who is also a director of the Company has beneficial interest, are unsecured, interest bearing at a fixed rate of 7.00% per annum (31st December 2006: 7.00% per annum) and are repayable on 31st December 2008. During the six months ended 30th June 2007, interest expenses of HK\$867,000 (six months ended 30th June 2006: HK\$364,000) were recognised in the interim financial statements. As at 30th June 2007, interest payables of HK\$2,276,000 (31st December 2006: HK\$1,838,000) were accrued and are repayable together with the principal debts on the maturity date.

#### 16. Amounts due to minority equity holders of subsidiaries

The amounts of HK\$85,640,000 (31st December 2006: HK\$17,987,000) due to minority equity holders of subsidiaries are repayable on 31st December 2008. The remaining amounts of HK\$44,853,000 (31st December 2006: HK\$43,439,000) due to minority equity holders of another subsidiary are repayable one year after production commences. (As at 30th June 2007, production had not commenced). These amounts due to minority equity holders of subsidiaries, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 6.00% to 7.00% per annum (31st December 2006: 6.00% to 7.00% per annum). During the six months ended 30th June 2007, interest expenses of HK\$2,781,000 (six months ended 30th June 2006: HK\$1,775,000) were recognised in the interim financial statements. As at 30th June 2007, interest payables of HK\$11,164,000 (31st December 2006: HK\$6,628,000) were accrued and are repayable together with the principal debts on the maturity dates.

#### 17. Share capital

	<b>As at 30th June 2007 (Unaudited) '000</b>	As at 31st December 2006 (Audited) '000	<b>As at 30th June 2007 (Unaudited) HK\$'000</b>	As at 31st December 2006 (Audited) HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	<b><u>5,000,000</u></b>	<u>5,000,000</u>	<b><u>500,000</u></b>	<u>500,000</u>
<i>Issued and fully paid:</i>				
At 1st January	<b>2,080,800</b>	2,080,800	<b>208,080</b>	208,080
New shares issued	<b><u>230,000</u></b>	<u>–</u>	<b><u>23,000</u></b>	<u>–</u>
At 30th June/31st December	<b><u>2,310,800</u></b>	<u>2,080,800</u>	<b><u>231,080</u></b>	<u>208,080</u>

The Company and the Placing Agent entered into the Placing Agreement on 15th March 2007 pursuant to which the Placing Agent has conditionally agreed to procure placees for a maximum of 230,000,000 new Shares ("Placing Shares"), at a placing price of HK\$2.00 per Placing Share, on a best effort basis. On 2nd April 2007, 230,000,000 Placing Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 16th June 2006. The details of the transactions are set out in the announcements of the Company dated 20th March 2007 and 2nd April 2007. The net proceeds of approximately HK\$443,530,000 from the Placing Shares were received resulting in creating additional share premium of approximately HK\$420,530,000 during the six months ended 30th June 2007.

## 18. Capital commitments

Capital commitments outstanding of the Group at 30th June 2007 not provided for in the interim financial statements were as follows:

	<b>As at 30th June 2007 (Unaudited) HK\$'000</b>	As at 31st December 2006 (Audited) HK\$'000
Contracted but not provided for:		
– capital expenditure in respect of acquisition of property, plant and equipment	161,254	112,895
– capital expenditure in respect of exploration and design fees for a mining project	<u>7,718</u>	<u>7,604</u>
	<b><u>168,972</u></b>	<b><u>120,499</u></b>

## 19. Operating lease commitments

At 30th June 2007, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings were payable as follows:

	<b>As at 30th June 2007 (Unaudited) HK\$'000</b>	As at 31st December 2006 (Audited) HK\$'000
Within one year	681	659
In the second to fifth years	2,722	2,636
After five years	<u>26,534</u>	<u>26,027</u>
	<b><u>29,937</u></b>	<b><u>29,322</u></b>

The Group leases certain land and buildings under operating lease arrangements for terms ranging from 47 to 50 years.

## 20. Related party transactions

The following transactions were carried out with related parties:

- (a) Details of borrowings from related parties are disclosed in notes 12 to 16 to the interim financial statements.
- (b) In April 2007, Liulin Luenshan Coking Company Limited (“Luenshan”), a non-wholly owned subsidiary of the Company, has drawn down a banking facility denominated in RMB amounting to HK\$51,590,000 from a financial institution. Shanxi Jinshan Energy Limited, the immediate holding company of Luenshan, and a minority equity holder of Luenshan have given joint and several guarantees to secure the banking facility.

(c) Key management personnel compensation:

Included in staff costs are key management personnel compensation and comprises the following categories:

	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<b>1,269</b>	1,273
Post-employment benefits	<b>12</b>	12
Share-based payment	<b>1,099</b>	470
	<b><u>2,380</u></b>	<u>1,755</u>

**21. Post balance sheet events**

- (a) Subsequent to the balance sheet date on 24th July 2007, the Group entered into the supplemental Joint-Venture Agreement and the Supplemental Articles of Association of a non-wholly owned subsidiary of the Company with other two minority equity holders of the subsidiary to increase the registered capital of the subsidiary from RMB80million to RMB320million. The registered capital of the subsidiary will be increased by RMB240 million, of which RMB170.4 million shall be contributed by the Group and the remaining of RMB69.6 million shall be contributed by one of the minority equity holders of the subsidiary. Before the completion of the above said transaction, the Group currently holds 51% shareholdings in the subsidiary. Upon the completion, the Group will increase its shareholdings in the subsidiary to 66%. The principal asset of the subsidiary is the coke plant with planned annual production capacity of 1,000,000 tonnes of coking coal. The coke is still under construction and expected to be completed by the end of 2007. The additional registered capital contribution of RMB170.4 million by the Group will be financed by the net proceeds of allotment of 230,000,000 new shares of the Company on 2nd April 2007.
- (b) Subsequent to the balance sheet date and up to the date of the interim report, the Notes with principal amount of HK\$65,000,000 were converted into 27,896,993 fully paid up ordinary shares of the Company at a initial conversion price of HK\$2.33 per share as a result of increase in issued share capital and share premium of the Company by HK\$2,789,699 and HK\$62,210,301 respectively.

## **BUSINESS REVIEW**

In the first half of 2007, our turnover recorded approximately HK\$3.96 million, which was attributable to coal trades of approximately HK\$3.16 million and jewellery clearance sales of approximately HK\$0.8 million. The two coke plants were in the final construction works stage and expected to start production within the year. As they were still in the construction phase, together with the granting of the share option in the last year and the issuing of 5-year convertible notes in April, additional expense of approximately HK\$20.6 million were incurred according to the current accounting standards; the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK\$26.8 million for the period.

Taking into consideration of focusing our effort in the robust energy sector in order to serve the best interests for the Company, the management made the decision to cease the jewellery sales business after year 2006 and the disposal of all jewellery inventories was completed in February 2007. In April, the Company issued 230 million new shares through placement and 5-year convertible notes with the principal amount of HK\$300 million for cash. The placing price was HK\$2.00 per share and initial conversion price was HK\$2.33 per share. The net proceed of approximately HK\$730 million improves our financial position and strengthens our capital base for further investment into coal related industries.

## **FINANCIAL POSITION**

### **Material Acquisitions and Disposals**

During the six months ended 30th June 2007, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

### **Charges on Assets**

At 30th June 2007, none of the Group's assets was charged or subject to any encumbrance.

### **Contingent Liabilities**

At 30th June 2007, there was no guarantees given to any banks or financial institutions by the Group.

### **Gearing Ratio**

At 30th June 2007, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by total equity, was approximately 129%. The borrowings were mainly for financing certain construction and installation of plant and machinery for two coke plants and payment of deposits for a mining project in the People's Republic of China.

### **Exposure to Fluctuations in Exchange Rates**

At 30th June 2007, other than assets and liabilities denominated in Renminbi, the Group had no other material exposure to foreign exchange fluctuations.

## **Liquidity and Financial Resources**

At 30th June 2007, the Group's current ratio (current assets divided by current liabilities) was approximately 3.4 and the Group's cash and cash equivalent amounted to HK\$416,116,000.

## **Staff**

The Group had 7 Hong Kong employees and 298 Mainland employees at 30th June 2007 with remuneration packages to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for Mainland employees. The Group has also adopted the share option scheme since 20th June 2003. Details of share options being granted and outstanding under the share option scheme are set out in the section "SHARE OPTION SCHEME" below.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the six months ended 30th June 2007.

## **FUTURE PROSPECTS**

In the past 6 months, world economy was favorable as both inflation and interest rates remained stable. However, uncertainties within the capital market increase and the global economic system will become more cautious in the second half of the year. As one of the leading emerging markets, the economic environment of China is expected to remain relatively stable and maintain a dynamic growth. The Company, with a healthy liquidity position, is focusing on seeking out those opportunities which strengthens our future income. Hence, we have increased our equity interest from 51% to 66% in the PRC joint-venture "Shanxi Yao Zin Coal and Coking Company Ltd" in July. This is in line with our defined profit growing strategy.

In respect of the coalmine investment, we are progressing well in obtaining significant documents and permits of the target mine from the relevant government authorities, we will proceed the mining rights application in accordance with the procedures and hopefully to have it be completed within the year. From a strategic perspective, we are also reviewing certain possibilities to acquire some potential in-operation coalmines to well-positioned our successfulness in the coal industries investment. Our strategy is clear; we will diversify our future earnings and strengthen the recurring income through continuous developments in the energy sector in the recent years to benefit a distinct competitive advantage in the way forward.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS**

As at 30th June 2007, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (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 to be notified to the Company and the Stock Exchange of Hong Kong Limited ("The Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:



(i) **Long positions in ordinary shares (HK\$0.10 each) of the Company:**

Name of Director	Number of ordinary shares held			% of issued share share capital of the Company	
	Personal interests	Corporate interests	Total	Total	
Mr. Wong Lik Ping	90,750,000	1,149,200,000 (Note)	1,239,950,000	53.66%	

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,149,200,000 ordinary shares in the Company as at 30th June 2007.

(ii) **Options to subscribe for ordinary shares (HK\$0.10 each) of the Company:**

The directors of the Company have been granted unlisted options under the Company's share option scheme, details of which are set out in the section "SHARE OPTION SCHEME" below.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

#### **DIRECTORS' RIGHTS TO ACQUIRE SECURITIES**

Save as disclosed in the section "SHARE OPTION SCHEME" below, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangements which enable a director or chief executive of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporates and none of the directors or their spouses or their children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

#### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS**

As at 30th June 2007, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the sections "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS" above and "SHARE OPTION SCHEME" below, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO.

#### **SHARE OPTION SCHEME**

At the annual general meeting of the Company held on 20th June 2003, the equity holders of the Company approved the adoption of a new option scheme (the "Scheme") to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution.

At 30th June 2007, the option holders of the Company had the following interest in unlisted options to subscribe for shares of the Company granted under the Scheme. The vesting period of the options is two years from the date of grant and the options are then exercisable within a period of next five years. Each option gives the option holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

	Number of options outstanding at the beginning of the period and at the period end	Grant date	Period during which options are exercisable	Exercise price per share
<b>Directors</b>				
Wong Lik Ping	2,000,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
So Kwok Hoo	6,500,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
Chan Pat Lam	800,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
Choi Wai Yin	800,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
Kee Wah Sze	800,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
<b>Sub-total</b>	10,900,000			
<b>Employees</b>	78,500,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
<b>Others</b>	14,600,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
<b>Total</b>	<u>104,000,000</u>			

*Note:* Closing price per share immediately before the date of grant of options was HK\$1.34.

The fair value of the options granted in the last corresponding period, measured at the date of grant on 26th April 2006, totalled approximately HK\$38,858,000. As the options vest after two years from the date of grant on 26th April 2006, the amount will be recognised as a share-base compensation expense in the consolidated income statement over 2 years from 26th April 2006 to 25th April 2008. Thus, HK\$9,715,000 was recognised as a share-based compensation expense in the consolidation income statements with a corresponding credit in share-based compensation reserve for the six months ended 30th June 2007.

Using the Black-Scholes option pricing model, the following significant assumptions were used to derive the fair value of the options granted on 26th April 2006:

1. an expected volatility of 57.33%;
2. nil dividend yield;
3. the estimated weighted average expected life of the options granted on 26th April 2006 is 2.1 years. The corresponding period of Hong Kong Exchange Fund Notes interest rate at the date the options granted was 4.27%; and
4. estimated turnover rates of the Mainland employees and Hong Kong employees are both 15%.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to the absence of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the director's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Options which lapse or are cancelled prior to their exercise date are deleted from the registered of outstanding options.

#### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30th June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

#### **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the unaudited interim financial statements for the six months ended 30th June 2007.

#### **CODE ON CORPORATE GOVERNANCE PRACTICES**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2007, in compliance with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange, except the following deviation:

Code Provision A.4.2 stipulates that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting.

A special resolution in respect of the amendment the Article 90 of the Articles of Association of the Company has been passed at the last annual general meeting held on 15th June 2007 to the effect that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting instead of the following next annual general meeting.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of code of conduct regarding securities transactions by directors (the "Code of Conduct"). The Directors have made enquiry to all directors of the Company to confirm that they have complied with the Code of Conduct during the six months ended 30th June 2007.

By Order of the Board  
**SO Kwok Hoo**  
Executive Director

Hong Kong, 10th September 2007

*As at the date of this interim report, the executive directors of the Company comprise Mr. Wong Lik Ping, Mr. So Kwok Hoo and Mr. Li King Luk; the independent non-executive directors of the Company comprise Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam.*