KH 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)

DELIVER OUR FUTURE

2010 Interim Report

Contents

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. Mohammed Ibrahim Munshi

Company Secretary

Mr. Cheung Kai Fung *CPA, FCCA*

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Cayman Islands Principal Share Registrar And Transfer Office

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Condensed Consolidated Income Statement

For the six months ended 30 June 2010

The board of directors (the "Board") of Kiu Hung Energy Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010.

	Notes	Six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Restated) HK$'000
Turnover		**45,746**	50,664
Cost of sales		**(32,968)**	(33,396)
Gross profit		**12,778**	17,268
Other income		**929**	1,932
Selling and distribution costs		**(10,223)**	(6,407)
Administrative expenses		**(33,061)**	(14,264)
Other operating expenses		**(6,932)**	(1,052)
Operating loss	6	**(36,509)**	(2,523)
Finance costs		**(2,170)**	(12,600)
Share of profit of a jointly controlled entity		**467**	275
Loss before income tax		**(38,212)**	(14,848)
Income tax expense	7	**(100)**	(329)
Loss for the period		**(38,312)**	(15,177)
Loss attributable to:			
– equity holders of the Company		**(37,957)**	(15,475)
– non-controlling interests		**(355)**	298
		(38,312)	(15,177)
		HK cents	HK cents
Loss per share for loss attributable to the equity holders of the Company			
– basic and diluted	8	**(0.81)**	(0.38)
Interim dividend	9	**–**	–

The notes on pages 10 to 24 form an integral part of this condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Loss for the period	**(38,312)**	(15,177)
Other comprehensive income/(loss):		
Exchange difference arising from translation of foreign operations	**1,689**	(244)
Total comprehensive loss for the period	**(36,623)**	(15,421)
Total comprehensive loss for the period attributable to:		
– equity holders of the Company	**(36,268)**	(15,719)
– non-controlling interests	**(355)**	298
	(36,623)	(15,421)

The notes on pages 10 to 24 form an integral part of this condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	As at 30 June 2010 (Unaudited) HK$'000	As at 31 December 2009 (Restated) HK$'000
Non-current assets			
Property, plant and equipment	10	**69,846**	69,596
Prepaid land lease payments		**4,633**	4,643
Investment properties		**3,600**	3,600
Exploration and evaluation assets	11	**726,813**	711,889
Other intangible asset		**1,111**	1,117
Interest in a jointly controlled entity		**1,844**	1,377
Deposit		**1,550**	–
		809,397	792,222
Current assets			
Inventories		**37,570**	14,275
Trade receivables	12	**5,324**	2,804
Prepayment, deposits and other receivables		**6,888**	3,647
Due from a jointly controlled entity		**2,930**	593
Prepaid land lease payments		**112**	98
Current tax assets		**681**	511
Financial assets at fair value through profit or loss		**286**	286
Bank and cash balances		**98,120**	82,713
		151,911	104,927
Current liabilities			
Trade payables	13	**18,761**	12,896
Accruals and other payables		**36,384**	28,349
Current tax liabilities		**231**	789
Borrowings	14	**51,907**	38,285
		107,283	80,319
Net current assets		**44,628**	24,608
Total assets less current liabilities		**854,025**	816,830

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	**As at 30 June 2010 (Unaudited) HK$'000**	As at 31 December 2009 (Restated) HK$'000
Non-current liabilities			
Borrowings	*14*	**4,405**	4,609
Deferred tax liabilities		**168,315**	168,301
Financial liabilities at fair value through profit or loss	*15*	**382,529**	445,800
		555,249	618,710
Net assets		**298,776**	198,120
Equity			
Share capital	*16*	**96,257**	88,546
Reserves		**201,241**	107,941
Total equity attributable to equity holders of the Company		**297,498**	196,487
Non-controlling interests		**1,278**	1,633
Total equity		**298,776**	198,120

The notes on pages 10 to 24 form an integral part of this condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash (outflow)/inflow from operating activities	**(37,861)**	1,415
Net cash outflow from investing activities	**(19,382)**	(5,798)
Net cash inflow from financing activities	**70,713**	19,065
Net increase in cash and cash equivalents	**13,470**	14,682
Cash and cash equivalents at 1 January	**82,713**	69,019
Effect of foreign exchange rate changes	**1,937**	(54)
Cash and cash equivalents at 30 June	**98,120**	83,647

The notes on pages 10 to 24 form an integral part of this condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Contributed surplus HK$'000	Foreign currency translation reserve HK$'000	Share–based payment reserve HK$'000	Property revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009, as previously reported	82,315	462,126	1,645	303	53,130	5,262	5,141	(323,641)	286,281	1,951	288,232
Prior year adjustments	–	–	–	–	–	–	–	5,650	5,650	–	5,650
At 1 January 2009 as restated	82,315	462,126	1,645	303	53,130	5,262	5,141	(317,991)	291,931	1,951	293,882
Comprehensive income:											
(Loss)/profit for the period	–	–	–	–	–	–	–	(15,475)	(15,475)	298	(15,177)
Other comprehensive income:											
Currency translation differences	–	–	–	–	(244)	–	–	–	(244)	–	(244)
Total comprehensive (loss)/income	–	–	–	–	(244)	–	–	(15,475)	(15,719)	298	(15,421)
Recognition of share-based payment	–	–	–	–	–	150	–	–	150	–	150
At 30 June 2009	82,315	462,126	1,645	303	52,886	5,412	5,141	(333,466)	276,362	2,249	278,611

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Contributed surplus HK$'000	Foreign currency translation reserve HK$'000	Share–based payment reserve HK$'000	Property revaluation reserve HK$'000	Non-listed warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010, as previously reported	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(388,228)	329,804	1,633	331,437
Prior year adjustments	–	–	–	–	–	–	–	–	(133,317)	(133,317)	–	(133,317)
At 1 January 2010, as restated	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(521,545)	196,487	1,633	198,120
Comprehensive income:												
Loss for the period	–	–	–	–	–	–	–	–	(37,957)	(37,957)	(355)	(38,312)
Other comprehensive income:												
Currency translation differences	–	–	–	–	1,689	–	–	–	–	1,689	–	1,689
Total comprehensive (loss)/income	–	–	–	–	1,689	–	–	–	(37,957)	(36,268)	(355)	(36,623)
Issue of shares upon exercise of share options	79	599	–	–	–	(279)	–	–	–	399	–	399
Issue of shares on placement	3,600	55,828	–	–	–	–	–	–	–	59,428	–	59,428
Conversion of convertible notes	4,032	66,528	–	–	–	–	–	–	–	70,560	–	70,560
Transfer to reserve	–	–	(941)	–	–	–	–	–	941	–	–	–
Recognition of share-based payment	–	–	–	–	–	6,892	–	–	–	6,892	–	6,892
At 30 June 2010	96,257	683,462	964	303	54,962	11,726	7,976	409	(558,561)	297,498	1,278	298,776

The notes on pages 10 to 24 are an integral part of these condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

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 Company is an investment holding company. The principal activities of its subsidiaries (collectively, the "Group") are in the design, manufacture and sales of toys and gifts products and the mining and exploration 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 31 August 2010.

2 Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 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 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

3 Accounting policies

Except as described below and in note 4 to the condensed consolidated interim financial statements, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

New standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HKFRS 3 (Revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. These are not currently applicable to the Group, as it has not made any acquisitions and has not entered into any transactions with non-controlling interests in the half-year.

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

3 Accounting policies (continued)

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

4 Correction of prior period errors

During the preparation of the Group's condensed consolidated interim financial statements for the six months ended 30 June 2010, the Group has discovered several errors in its condensed consolidated interim financial statements for the year ended 31 December 2009. A detailed description of the nature of each prior period error is provided in note 4 (a) to (e) below. The amounts of the prior period correction for each financial statement line item affected are presented in the tables in note 4 (f)(I) to note 4 (f)(III) below.

a. Development expenditure incurred for Huanghuashan Coal Mine

The Group spent approximately HK$2,001,000 to develop the Huanghuashan Coal Mine in the second half year of 2009, during which these expenditures were expensed as incurred. However, since these expenditures were directly attributable to bringing the mine for its intended use, and accordingly, such expenditures should be capitalised as mining structure asset under property, plant and equipment. As a result, the carrying amount of property, plant and equipment should be increased by approximately HK$2,001,000 as at 31 December 2009, and the loss for the year then ended reduced by the same amount. Since these expenses were incurred in the second half year of 2009, there was no impact to the income statement for the six months ended 30 June 2009.

b. Staff costs incurred for Huanghuashan Coal Mine

During the second half year of 2009, staff costs of approximately HK$1,458,000 were incorrectly expensed as incurred. Approximately HK$617,000 of these costs were directly attributable to bringing the mine for its intended use, and accordingly, such costs should be capitalised as mining structure asset under property, plant and equipment. As a result, the carrying amount of property, plant and equipment should be increased by approximately HK$617,000, and the loss for the year then ended reduced by the same amount. The remaining costs of approximately HK$841,000 represented accrual for staff benefits which were over-provided as at 31 December 2009. As a result, accruals and other payables should be reduced by HK$841,000 at 31 December 2009, and the loss for the year then ended reduced by the same amount. Since these costs were incurred in the second half year of 2009, there was no impact to the income statement for the six months ended 30 June 2009.

4 Correction of prior period errors (continued)

c. Sales commission of toys business

The Group incorrectly recognised sales commission to a sales agent of the Group on a cash basis for the years ended 31 December 2009 and 31 December 2008. Accordingly, sales commission payable should be increased by approximately HK$1,886,000 and HK$3,146,000 as at 31 December 2009 and 31 December 2008, respectively, to reflect the recognition of sales commission on an accrual basis. Loss for the six months ended 30 June 2009 should be decreased by approximately HK$2,332,000.

d. Inventory provision of toys business

During the period, the directors reviewed the basis of estimating inventory provision in the prior years and concluded that the basis adopted previously was inappropriate. The provision for net realisable value of raw materials was wrongly estimated by comparing the carrying amounts with the latest purchase price of the raw materials, notwithstanding that the finished goods into which the raw materials were to be incorporated could still be sold at a profit. The previous basis does not comply with HKAS 2, Inventories, which requires no provision for raw materials if the finished goods could be sold at or above cost. Accordingly, the carrying values of inventories should be increased by approximately HK$8,796,000 and HK$8,169,000 at 1 January 2009 and 31 December 2009, respectively, and loss for the year ended 31 December 2009 should be increased by approximately HK$627,000. The directors considered that this error does not have a significant impact on the income statement for the six months ended 30 June 2009.

e. Fair value of financial liabilities at fair value through profit or loss

As set out in note 15 to the condensed consolidated interim financial statements, the Group issued Altered CN1 and CN2 in October 2009. The convertible notes were issued with a restriction such that any conversion of the notes will not result in the note holders holding more than 28% of the entire issued share capital of the Company at any time before the maturity date of the notes (the "Restriction"). At 31 December 2009, the convertible notes, classified as financial liabilities at fair value through profit or loss for accounting purpose, were measured at fair value. In estimating the fair value of the convertible notes at 31 December 2009, it was assumed that the Restriction would significantly reduce the fair value of the notes. However, since the notes can be transferred or assigned to any third party, the Restriction should not have a significant effect on the fair value of the notes. Accordingly, the financial liabilities at fair value through profit or loss should be increased by approximately HK$143,059,000 at 31 December 2009, with a corresponding increase in the Group's loss for the year ended 31 December 2009.

4 Correction of prior period errors (continued)

f. Summary of effects of correction of errors

I. Effect of correction of errors on the Group's condensed consolidated income statement for the six months ended 30 June 2009

	As previously reported HK$'000	Note 4(c) HK$'000	As restated HK$'000
Turnover	50,664	–	50,664
Cost of sales	(33,396)	–	(33,396)
Gross profit	17,268	–	17,268
Other income	1,932	–	1,932
Selling and distribution costs	(8,739)	2,332	(6,407)
Administrative expenses	(14,264)	–	(14,264)
Other operating expenses	(1,052)	–	(1,052)
Operating loss	(4,855)	2,332	(2,523)
Finance costs	(12,600)	–	(12,600)
Share of profit of a jointly controlled entity	275	–	275
Loss before income tax	(17,180)	2,332	(14,848)
Income tax expense	(329)	–	(329)
Loss for the period	(17,509)	2,332	(15,177)
Loss attributable to:			
– equity holders of the Company	(17,807)	2,332	(15,475)
– non-controlling interests	298	–	298
	(17,509)	2,332	(15,177)
Loss per share for loss attributable to the equity holders of the Company (expressed in HK cents per share)			
– basic and diluted	(0.43)	0.05	(0.38)

4 Correction of prior period errors (continued)

f. Summary of effects of correction of errors (continued)

II. Effect of correction of errors on the Group's condensed consolidated statement of comprehensive income for the six months ended 30 June 2009

	As previously reported HK$'000	Note 4(c) HK$'000	As restated HK$'000
Loss for the period	(17,509)	2,332	(15,177)
Exchange difference arising from translation of foreign operations	(244)	–	(244)
Total comprehensive loss for the period	(17,753)	2,332	(15,421)
Total comprehensive loss for the period attributable to:			
– equity holders of the Company	(18,051)	2,332	(15,719)
– non-controlling interests	298	–	298
	(17,753)	2,332	(15,421)

4 Correction of prior period errors (continued)

f. Summary of effects of correction of errors (continued)

III. Effect of correction of errors on the Group's condensed consolidated statement of financial position as at 31 December 2009

	As previously reported	Note 4(a)	Note 4(b)	Note 4(c)	Note 4(d)	Note 4(e)	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets							
Property, plant and equipment	66,978	2,001	617	–	–	–	69,596
Other non-current assets	722,626	–	–	–	–	–	722,626
	789,604	2,001	617	–	–	–	792,222
Current assets							
Inventories	6,106	–	–	–	8,169	–	14,275
Other current assets	90,652	–	–	–	–	–	90,652
	96,758	–	–	–	8,169	–	104,927
Current liabilities							
Accruals and other payables	(27,304)	–	841	(1,886)	–	–	(28,349)
Other current liabilities	(51,970)	–	–	–	–	–	(51,970)
	(79,274)	–	841	(1,886)	–	–	(80,319)
Net current assets	17,484	–	841	(1,886)	8,169	–	24,608
Total assets less current liabilities	807,088	2,001	1,458	(1,886)	8,169	–	816,830
Non-current liabilities							
Borrowings	(4,609)	–	–	–	–	–	(4,609)
Deferred tax liabilities	(168,301)	–	–	–	–	–	(168,301)
Financial liabilities at fair value through profit or loss	(302,741)	–	–	–	–	(143,059)	(445,800)
	(475,651)	–	–	–	–	(143,059)	(618,710)
Net assets	331,437	2,001	1,458	(1,886)	8,169	(143,059)	198,120
Equity							
Share capital	88,546	–	–	–	–	–	88,546
Reserves	241,258	2,001	1,458	(1,886)	8,169	(143,059)	107,941
Non-controlling interests	1,633	–	–	–	–	–	1,633
Total equity	331,437	2,001	1,458	(1,886)	8,169	(143,059)	198,120

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.

The following tables present revenue, results and total assets for the Group's operating segments for the period.

	Exploration and mining (Unaudited) HK$'000	**Toys and gift items** (Unaudited) HK$'000	**Total** (Unaudited) HK$'000
Six months ended 30 June 2010:			
Revenue from external customers	3,607	42,139	45,746
Segment loss	(5,711)	(8,235)	(13,946)
Six months ended 30 June 2009:			
Revenue from external customers	–	50,664	50,664
Segment (loss)/profit (restated)	(14,071)	3,630	(10,441)
Total assets			
30 June 2010	779,577	108,091	887,668
31 December 2009 (restated)	744,559	92,693	837,252

5 Segment information (continued)

	Six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Restated) HK$'000
Reconciliations of segment profit or loss:		
Total loss of reportable segments	**(13,946)**	(10,441)
Unallocated amounts:		
Other income	**51**	460
Unallocated expenses	**(24,661)**	(1,889)
Unallocated finance costs	**(123)**	(3,253)
Share of profit of a jointly controlled entity	**467**	275
Loss for the period before tax	**(38,212)**	(14,848)

	As at 30 June 2010 (Unaudited) HK$'000	As at 31 December 2009 (Restated) HK$'000
Reconciliation of segments assets:		
Total segment assets	**887,668**	837,252
Unallocated corporate assets	**73,640**	59,897
Total assets per balance sheet	**961,308**	897,149

6 Operating loss

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation	**2,796**	3,272
Amortisation of prepaid land lease payments	**49**	49
Amortisation of license rights	**6**	12
Fair value loss on derivative component of convertible notes	**–**	386
Fair value loss on financial liabilities at fair value through profit or loss (note 15)	**7,289**	–
Reversal of provision for impairment of receivables	**(1,369)**	–
Staff costs:		
Wages and salaries (including directors emoluments)	**13,998**	11,753
Pension and Mandatory Provident Fund costs	**354**	348
Share-based payment expenses	**6,892**	150

7 Income tax expense

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Income tax for the current period:		
– Hong Kong	**–**	242
– Elsewhere	**6**	87
Underprovision for previous years	**94**	–
Total income tax expense	**100**	329

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdiction.

8 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 HK$37,957,000 (2009: HK$15,475,000) and the weighted average of 4,679,681,500 (2009: 4,115,759,800) ordinary shares in issue during the period.

The amount of diluted loss per share is equal to the amount of the basic loss per share for the six months ended 30 June 2010 and 2009 as the effect of the potential ordinary shares was antidilutive during the relevant periods.

9 Interim dividend

The Board has revolved not to pay any interim dividend for the period (2009: Nil).

10 Property, plant and equipment

During the six months ended 30 June 2010, the Group has acquired property, plant and equipment of approximately HK$3,697,000 (2009: HK$5,917,000).

11 Exploration and evaluation assets

During the six months ended 30 June 2010, the Group has performed further exploration work in Bayanhushuo Coal Field amounted to approximately HK$14,153,000 (2009: Nil).

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

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 2010 and 31 December 2009, the ageing analysis of trade receivables, based on the invoice dates, net of provision, was as follows:

	As at 30 June 2010 (Unaudited) HK$'000	As at 31 December 2009 (Audited) HK$'000
0 – 30 days	**3,966**	2,683
31 – 90 days	**1,334**	121
91 – 180 days	**21**	–
181 – 360 days	**3**	–
	5,324	2,804

13 Trade payables

At 30 June 2010 and 31 December 2009, the ageing analysis of trade payables based on the invoice dates was as follows:

	As at 30 June 2010 (Unaudited) HK$'000	As at 31 December 2009 (Audited) HK$'000
0 – 30 days	**10,841**	2,812
31 – 90 days	**6,518**	3,231
91 – 180 days	**1,076**	5,024
181 – 360 days	**218**	1,329
Over 360 days	**108**	500
	18,761	12,896

14 Borrowings

	As at 30 June 2010 (Unaudited) HK$'000	As at 31 December 2009 (Audited) HK$'000
Bank loans	**30,045**	16,364
Trust receipt loans	**1,504**	–
Other loans	**18,391**	24,319
Other loans (Non-interest bearing)	**6,208**	–
Due to shareholders	**164**	2,211
	56,312	42,894
Current		
Bank loans	**25,640**	11,755
Trust receipt loans	**1,504**	–
Other loans	**18,391**	24,319
Other loans (Non-interest bearing)	**6,208**	–
Due to shareholders	**164**	2,211
	51,907	38,285
Non-current		
Bank loans	**4,405**	4,609
	4,405	4,609
Total borrowings	**56,312**	42,894

At 30 June 2010, the Group's bank loans were secured by:

(i) Charges over certain of the Group's leasehold land and buildings, buildings and prepaid land lease payments; and

(ii) Personal guarantee by the Company's director.

15 Financial liabilities at fair value through profit or loss

Convertible notes of nominal value of approximately HK$254,065,000 ("CN1") were issued as part of the consideration for an acquisition of subsidiaries completed on 28 March 2008. On 2 October 2009, the Company and CN1 holders entered into a deed to alter certain terms of CN1 ("Altered CN1") such that:

(i) the conversion price be amended from HK$0.7 to HK$0.25 subject to adjustments;

(ii) the date of maturity of CN1 be extended from 28 March 2010 to 30 September 2021;

(iii) CN1 holders shall be deemed to convert entire CN1 into new ordinary shares of the Company at the adjusted conversion price by maturity date, and such conversion will not result in an insufficiency of public float of shares as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or CN1 holders holding more than 28% of entire issued share capital of the Company; and

(iv) any remaining CN1 not converted by maturity date will be redeemed at 100% of its outstanding principal amount.

On 2 October 2009, the convertible notes of nominal value of approximately HK$35,416,000 ("CN2") were issued, and the subscription price payable by CN2 holders was satisfied by capitalizing outstanding principal amount of the promissory notes of approximately HK$35,416,000. The terms of CN2 are same as Altered CN1.

The management has designated the entire Altered CN1 and the entire CN2 as financial liabilities at fair value through profit or loss.

During the reporting period, convertible notes with principal amount of HK$50,400,000 were converted into 201,600,000 ordinary shares at the conversion price of HK$0.25 each. The movements in the fair value of the convertible notes are as follows:

	Altered CN1 HK$'000	**CN2** HK$'000	**Total** HK$'000
Transfer from CN1 upon change of terms on 2 October 2009	157,246	–	157,246
Issue of CN2 on 2 October 2009	–	35,416	35,416
Fair value loss (restated)	234,014	19,124	253,138
At 31 December 2009 and 1 January 2010 (restated)	391,260	54,540	445,800
Converted into ordinary shares of the Company during the period	(51,240)	(19,320)	(70,560)
Fair value loss/(gain)	11,604	(4,315)	7,289
At 30 June 2010	351,624	30,905	382,529

16 Share capital

	Note	Number of shares As at 30 June 2010	Number of shares As at 31 December 2009	Ordinary share capital As at 30 June 2010 HK$'000	Ordinary share capital As at 31 December 2009 HK$'000
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		**4,427,306,800**	4,115,759,800	**88,546**	82,315
Issue of shares on					
– Exercise of share options	*(note (a))*	**3,920,000**	11,547,000	**79**	231
– Conversion of convertible notes	*(note (b))*	**201,600,000**	–	**4,032**	–
– On placement	*(note (c))*	**180,000,000**	300,000,000	**3,600**	6,000
At end of period/year		**4,812,826,800**	4,427,306,800	**96,257**	88,546

Notes:

(a) *For the six months ended 30 June 2010, the Company issued 3,920,000 (2009: 11,547,000) ordinary shares of HK$0.02 each in relation to the exercise of the share options at an exercise price of HK$0.1016 per share (2009: HK$0.1016). The difference between the issue price and par value totaling approximately HK$320,000 (2009: HK$942,000) was credited to the Company's share premium account. In addition, the portion of share-based payment reserve in relation to the exercise of the share options exercised during the period of approximately HK$279,000 (2009: HK$821,000) was transferred to the Company's share premium account.*

(b) *For the six months ended 30 June 2010, the Company issued 201,600,000 (2009: Nil) ordinary shares of HK$0.02 each in relation to the conversion of the convertible notes at the conversion price of HK$0.25 per share. The difference between the issue price and par value totaling approximately HK$66,528,000 (2009: Nil) was credited to the Company's share premium account.*

(c) *On 22 October 2009, 9 November 2009 and 11 December 2009, the Company and a placing agent entered into several placing agreements in respect of the placements of 100,000,000, 100,000,000 and 100,000,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.281, HK$0.36 and HK$0.415 per share respectively. The placements of 100,000,000, 100,000,000 and 100,000,000 ordinary shares were completed on 3 November 2009, 23 November 2009 and 24 December 2009 respectively and the premium on the issue of shares, amounting to HK$96,800,000 net of issue share expenses, was credited to the Company's share premium account.*

On 18 January 2010, the Company and a placing agent entered into a placing agreement in respect of the placement of 180,000,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.339 per share. The placements of 180,000,000 ordinary shares were completed on 29 January 2010 and the premium on the issue of shares, amounting to approximately HK$55,828,000 net of issue share expenses, was credited to the Company's share premium account.

All new ordinary shares issued during the period rank pari passu in all respects with the existing shares of the Company.

17 Related party transactions

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sales of goods to a jointly controlled entity *(note a)*	**3,350**	2,837
Product development, sale and marketing services fee paid to a related company *(note b)*	**788**	508
Interest expenses paid to a related company *(note c)*	**–**	298
Interest expenses paid to a shareholder *(note d)*	**51**	–

Notes:

(a) *A shareholder of the jointly controlled entity is 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% (2009: 32%) equity interest in the Company's subsidiary paying for the services.*

(c) *Interest was charged at 11% per annum on the principal amount of loan receivable from the related company. Two directors of the Company are also the directors of this related company.*

(d) *Interest was charged at 11% per annum on the principal amount of loan receivable from a shareholder.*

18 Capital commitments

The Group did not have any significant capital commitment at the end of reporting period.

19 Event after the reporting period

On 8 July 2010, Lot Treasures Investments Limited ("Lot Treasures"), a wholly owned subsidiary of the Company and incorporated in the British Virgin Islands with limited liability, entered into a conditional sale and purchase agreement, as supplemented by a supplemental agreement dated 20 August 2010 (collectively the ("Acquisition Agreement")), with Fast Glory Holdings Limited ("Fast Glory"), a company incorporated in the British Virgin Islands with limited liability.

Pursuant to the Acquisition Agreement, Lot Treasures has conditionally agreed with Fast Glory to acquire (i) the entire issued share capital of Sino View Group Limited (the "Target Company"), a company incorporated in the British Virgin Islands with limited liability and owned as to 100% by Fast Glory; and (ii) all obligations, liabilities and debts owing or incurred by the Target Company and its subsidiaries to Fast Glory as at and after the completion of this acquisition (the "Completion"), whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on the Completion, at a consideration of not more than HK$8,889,110,000, which will be satisfied by payment in cash, issue of promissory note, issue of the Company's new ordinary shares and issue of the Company's convertible notes.

Management Discussion and Analysis

Financial Highlights

For the six months ended 30 June 2010 (the "Period"), the Group recorded turnover of approximately HK$45.7 million (2009: HK$50.7 million), representing a decrease of approximately 9.9% as compared with the same period last year. Loss attributable to equity holders of the Company for the Period was approximately HK$38.0 million (2009: HK$15.5 million). The significant increase in loss attributable to equity holders of the Company for the Period was mainly attributable to the (i) decrease in turnover and gross profit margin of the toys and gift business; (ii) increase in share option expenses; (iii) increase in fair value loss on the financial liabilities at fair value through profit or loss; (iv) the increase of salaries expenses to develop the coal mine business; and (v) the increase of legal and professional expenses incurred for the potential merger and acquisition activities carried out by the Group during the Period.

Basic loss per share for the Period was HK$0.81 cents (2009: HK$0.38 cents). The Board has resolved not to pay any interim dividend for the six months ended 30 June 2010 (2009: Nil).

Business Review

Segmental Information Analysis

During the first half of 2010, 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 of toys and gifts business decreased by approximately 17.0% from approximately HK$50.7 million for the first half of 2009 to approximately HK$42.1 million for the first half of 2010. At customers' request, some of the sales orders have been confirmed to be shipped in the second half of the year rather than in the first half of the year as compared to that for the year 2009 and this lead to the decrease in turnover in the first half of 2010 when compared to the turnover in the same period last year.

Gross profit margin also decreased from approximately 34.1% for the first half of 2009 to approximately 29.3% for the first half of 2010. The decrease in gross profit margin is mainly due to the surge in price of raw materials and increase in the labor cost as a result of the recovery of the economy.

As a result of the decrease in turnover and gross profit margin, the segment result of the manufacturing and trading of toys and gifts items incurred a segment loss of approximately HK$8.2 million (2009: segment profit of approximately HK$3.6 million).

Exploration and mining of natural resources

The Group owned the mining rights of Huanghuashan Coal Mine and the exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region, the People's Republic of China ("PRC") with a total estimated coal resources under the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves, published by the Joint Ore Reserves Committee (the "JORC Code") as follows:

	Inferred Resources *(note 3)* *(Million Tonnes)*
Guerbanhada Coal Mine ("GCM")	106.00 *(note 1)*
Huanghuashan Coal Mine ("HCM")	7.85 *(note 2)*
Bayanhushuo Coal Field ("BCF")	394.05 *(note 2)*
Total	507.90

In order to comply with Rule 18.29 of the Listing Rules with effect from 3 June 2010, around 63.6 million tonnes of coal resources have been excluded from the original estimate of total coal resources of 571.5 million tonnes. As such, the Company's total estimated amount of resources for the three existing mines have been adjusted to 507.90 million tonnes. Among the 63.6 million tonnes of excluded coal resources, 22.9 million tonnes of them representing additional coal resources of GCM estimated by a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007 as a result of completion of the detailed stage of exploration but have not been reviewed by Steff Robertson and Kirsten (Australasia) Pty Ltd ("SRK") nor another competent person as defined by Rule 18.21 of the Listing Rule. Another 40.7 million tonnes of them representing the coal resources of BCF which is classified as "Unclassified" category according to the JORC Code by the technical report issued by SRK dated 31 January 2008.

Notes:

1. *The information is extracted from the technical report issued by SRK which performed an independent review of the estimated resources of GCM. The technical report formed part of the Company's circular dated 30 March 2007 in compliance with the Listing Rules in relation to the Company's very substantial acquisition.*

2. *The information is extracted from the technical reports issued by SRK which performed an independent review of the estimated resources of HCM and BCF, respectively. The technical reports formed part of the Company's circular dated 31 January 2008 in compliance with the Listing Rules in relation to the Company's very substantial acquisition.*

3. *The estimated resources of the three existing mines are prepared in compliance with the PRC resources reporting standard. According to each of the technical reports, if SRK were to compare these resources estimation to the JORC Code standard, each of the estimated resources would be equivalent to the inferred resources based on the principles of the JORC Code.*

HCM had officially commenced production in December 2009. During the first half of 2010, the Group recorded a turnover of approximately HK$3.6 million (First half of 2009: Nil) from the coal business.

The Group is in the process of preparing documents required in respect of the mining license application of GCM. It is expected that the application documents will be submitted by the Group in 2010 or first half of 2011. For BCF, it is expected that the Group will complete the final stage of exploration in 2010.

The segment loss of exploration and mining of nature resources has decreased from approximately HK$14.1 million in the first half of 2009 to approximately HK$5.7 million in the first half of 2010 as HCM commenced production in December 2009 and started to contribute revenue and gross profit to the Group during the Period.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2010 increased by approximately 59.4% to approximately HK$10.2 million when compared to approximately HK$6.4 million in the same period last year. The increase was mainly due to the increase in freight and transportation expenses of HK$1.8 million and commissions expenses of HK$0.97 million during the Period.

Administrative expenses

Administrative expenses for the six months ended 30 June 2010 increased by approximately 131.5% to approximately HK$33.1 million when compared to approximately HK$14.3 million in the same period last year. The increase was mainly due to (i) the increase in share options expenses of approximately HK$6.8 million; (ii) the increase of salaries expenses of approximately HK$2.9 million to develop the coal mine business; and (iii) the increase of legal and professional expenses of approximately HK$2.1 million for the potential merger and acquisition activities carried out by the Group during the Period.

Other operating expenses

Other operating expenses for the six months ended 30 June 2010 increased by approximately 527.3% to approximately HK$6.9 million when compared to approximately HK$1.1 million in the same period last year. The increase was mainly due to a net effect of the increase in fair value loss on financial liabilities at fair value through profit or loss of approximately HK$7.3 million and the reversal of provision for impairment of receivables of approximately HK$1.4 million during the Period.

Finance costs

Finance costs for the six months ended 30 June 2010 decreased by approximately 82.5% to approximately HK$2.2 million when compared to approximately HK$12.6 million in the same period last year. The decrease was mainly due to the decrease of other loans during the Period and the decrease in convertible notes in the second half 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. The Group had cash and bank balances of approximately HK$98.1 million (31 December 2009: HK$82.7 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 30 June 2010, the Group's bank and other borrowings amounted to approximately HK$56.3 million (31 December 2009: HK$42.9 million), out of which approximately 92.2% (2009: 89.3%) was repayable within one year. The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, of which approximately 92.0% (2009: 88.3%) bore interest at fixed lending rate.

In addition, the Group had financial liabilities at fair value through profit or loss of approximately HK$382.5 million at 30 June 2010 (31 December 2009: HK$445.8 million).

The debt to equity ratio of the Group calculated as a ratio of total bank and other borrowings (including financial liabilities at fair value through profit or loss) to total equity was approximately 146.9% as at 30 June 2010 (31 December 2009: 246.7%).

Net current assets of the Group as at 30 June 2010 was approximately HK$44.6 million (31 December 2009: HK$24.6 million) and the current ratio of the Group was approximately 141.6% (31 December 2009: 130.6%).

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 and the Group had not used any financial instruments for hedging during the Period.

As at 30 June 2010, certain property, plant and equipment and prepaid land lease payments held by the Group with carrying values of approximately HK$27.8 million (31 December 2009: HK$28 million) and HK$4.7 million (31 December 2009: HK$4.7 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2010, the Group did not have any significant capital commitment or contingent liabilities (31 December 2009: Nil).

Employment, Training and Development

At 30 June 2010, the Group had a total of 790 employees (2009: 798 employees). The Group always 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.

Management Discussion and Analysis

Business Prospects and Future Material Investment

We believe our coal business is important for the Group as it enable 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 electricity and other industries will continue to be robust in the foreseeable future in view of the continual economic growth in the PRC.

Mongolian Acquisition

On 24 February 2010 (complemented by supplemental agreement dated 3 March 2010), the Group has entered into a contract to acquire three coal mines in the Khovd Province of Mongolia at a total consideration HK$1,439.1 million (the "Mongolian Acquisition"). The total consideration will be satisfied by (i) as to approximately HK$12.3 million by payment in cash; (ii) as to HK$209.2 million by the issue of the Company's new shares; and (iii) up to approximately HK$1,217.6 million by the issue of the convertible notes. The mines are preliminarily estimated to have coking coal resources of not less than 360 million tons. Coking coal is a high quality coal mainly used in steelmaking. Along with the growth in China's steelmaking volume, there is also a constant increase in the demand for coking coal. In China, coking coal production is insufficient to meet the demand of the steelmaking industry. Mongolia is located in the northern part of China where high quality coking coal can be found and its geographical location which is in close proximity to regions of Xinjiang and Inner Mongolia in Northwest China is advantageous for providing supplies to the local steel industry. Therefore, the Group's acquisition plan in Mongolia is in line with the business development strategies of our coal business. The Mongolian Acquisition is yet to be completed. As at the date of this report, the Company is still performing the due diligence process and preparing the contents of the corresponding circular, including but not limited to preparation of the technical report, the valuation report, and the unaudited pro-forma financial information of the enlarged group. For further details of the Mongolian Acquisition, please refer to the Company's announcements on 3 February, 17 March and 7 April in this year. Further details on the Mongolian Acquisition will be announced by the Company at appropriate time.

Guizhou Acquisition

Subsequent to the balance sheet date on 8 July 2010, the Group had entered into an acquisition agreement (complemented by supplemental agreement dated 20 August 2010) to acquire the entire issued share capital of Sino View Group Limited which, together with its subsidiaries (the "Guizhou Target"), will hold mining licenses of eight mines located in Guizhou Province, the PRC with an aggregate amount of anthracite coal resources of approximately 642.5 million tonnes upon completion of the relevant reorganization at a total consideration of not more than HK$8,889.1 million (the "Guizhou Acquisition"). The total consideration will be satisfied by (i) as to HK$300 million by payment in cash; (ii) as to HK$200 million by issuing of promissory note; (iii) as to HK$481 million by the issue of the Company's new shares; and (iv) up to approximately HK$7,908.1 million by the issue of the convertible notes. The vendor of the Guizhou Acquisition undertakes to the Group that, subject to the terms of the Guizhou Acquisition, the net profit of the Guizhou Target for the financial year ending 31 December 2010 shall not be less than RMB 170 million and the net profit of the Guizhou Target for the financial year ending 31 December 2011 shall not be less than RMB 400 million. The Guizhou Acquisition is yet to be completed. As at the date of this report, the Company is conducting the due diligence process and preparing the contents of the corresponding circular, including but not limited to preparation of the technical report, the valuation report, and the unaudited pro-forma financial information of the enlarged group. For further details of the Guizhou Acquisition, please refer to the Company's announcements on 1 April and 20 August in this year. Further details on the Guizhou Acquisition will be announced by the Company at appropriate time.

In view of the worldwide increasing demand for natural resources and the business expansion opportunities to be enlightened by the Mongolian Acquisition and Guizhou Acquisition, the Group considers that it will further create strategic values to the Group by increasing the amount of its coal resources, broadening the variety of its coal resources and enhancing the market position of its coal mining business. The Group also expects that the Guizhou Target will contribute to the cash flows, revenue and net profit of the Group upon the completion of the Guizhou Acquisition.

Save as disclosed above, the Group did not have any material acquisition for the period ended 30 June 2010.

Correction of Prior Period Errors

The details of correction of prior period errors are set out in note 4 to the condensed consolidated interim financial statements.

Corporate Governance and Other Information

Directors' Interests in Shares

As at 30 June 2010, 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 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 Code to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Number of attributable number of Shares held or short positions	Capacity: Interest of controlled corporation	Capacity: Interest of child under 18 or spouse	Capacity: Beneficial owner	Approximate percentage or attributable percentage of shareholdings
Yu Won Kong, Dennis *(Note 1)*	1,479,821,872 (L)	956,321,872 (L)	14,500,000 (L)	509,000,000 (L)	30.75%
Hui Kee Fung *(Note 2)*	775,500,000 (L)	767,500,000 (L)	–	8,000,000 (L)	16.83%
Guo Tianjue	8,000,000 (L)	–	–	8,000,000 (L)	0.18%
Lam Kit Sun	8,000,000 (L)	–	–	8,000,000 (L)	0.18%
Lam Siu Lun, Simon	6,000,000 (L)	–	–	6,000,000 (L)	0.14%
Zhang Xianmin	6,000,000 (L)	–	–	6,000,000 (L)	0.14%
Mohammed Ibrahim Munshi	6,000,000 (L)	–	–	6,000,000 (L)	0.14%

(L) *Long Position*

Notes:

1. *The entire issued share capital of Gold Dynasty Investments Limited is beneficially owned as to 45% by Top Advance Group Limited. The entire issued share capital of Top Advance Group Limited is beneficially owned as to 50% by Strong Choice Investments (Holdings) Ltd., the entire issued share capital of which is beneficially owned by Yu Won Kong, Dennis.*

2. *The shares are held by Legend Win Profits Limited, 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 2010, 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 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 Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Corporate Governance and Other Information

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the headings "Directors' Interests in Shares" above and "Share Options" below, at no time during the six months ended 30 June 2010 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 the Directors are aware, as at 30 June 2010, the interests or short positions of substantial shareholders (within the meaning of the Listing Rules) in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company were as follows:

		Capacity			
Name of shareholder	Number of shares or underlying shares	Beneficial owner	Interest of controlled corporation	Interest of child under 18 or spouse	Approximate shareholding
Gombosuren Amgalanbat *(Note 5)*	3,567,062,500(L)	–	3,567,062,500	–	75.76%
Wonder Return Limited *(Note 5)*	3,567,062,500(L)	3,567,062,500	–	–	75.76%
Ho Siu Lan, Sandy *(Note 1)*	1,479,821,872 (L)	14,500,000	–	1,465,321,872	30.75%
Chung Chi Shing *(Note 2)*	1,130,141,872 (L)	173,820,000	956,321,872	–	23.48%
Kau Man Wai, Leslie *(Note 3)*	1,068,191,872 (L)	111,870,000	956,321,872	–	22.19%
Gold Dynasty Investments Limited (Note 2)	956,321,872 (L)	956,321,872	–	–	19.87%
Top Advance Group Limited *(Notes 2 & 3)*	956,321,872 (L)	–	956,321,872	–	19.87%
Legend Win Profits Limited *(Note 4)*	767,500,000 (L)	767,500,000	–	–	15.95%
Ruan Yuan	530,000,000 (L)	530,000,000	–	–	11.97%

L: Long Position

Notes:

1. *Ho Siu Lan, Sandy is the spouse of Yu Wong Kong, Dennis, the executive director of the Company.*

2. *The entire issued share capital of Gold Dynasty Investments Limited is beneficially owned as to (i) 55% by Uniview Holdings Limited, the entire issued share capital of which is beneficially owned by Chung Chi Shing; and (ii) 45% by Top Advance Group Limited.*

3. *The entire issued share capital of Top Advance Group Limited is beneficially owned as to (i) 50% by Strong Choice Investments (Holdings) Ltd., the entire issued share capital of which is beneficially owned by Yu Won Kong, Dennis; and (ii) 50% by Kau Man Wai, Leslie.*

4. *Details of Legend Win Profits Limited are disclosed in the section headed "Directors' Interest in Shares" of this interim report.*

5. *The shares are held by Wonder Return Limited, a company incorporated in the British Virgin Islands. The issued share capital of Wonder Return Limited is beneficially owned by Gombosuren Amgalanbat as to 90%.*

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 2010.

Share Options

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

Grantee	Date of grant	Number of share options: Outstanding at 1 January 2010	Granted during the period[(1)]	Exercised during the period[(2)]	Forfeited during the period	Outstanding at 30 June 2010	Exercisable at 30 June 2010	Exercise period	Exercise price
(Executive Directors)									
Yu Won Kong, Dennis	11 Jan 2010	–	22,000,000	–	–	22,000,000	22,000,000	11 Jan 2010 to 11 Jan 2012	HK$0.6000
		–	22,000,000	–	–	22,000,000	22,000,000		HK$0.4000
Hui Kee Fung	11 Jan 2010	–	4,000,000	–	–	4,000,000	4,000,000	11 Jan 2010 to 11 Jan 2012	HK$0.6000
		–	4,000,000	–	–	4,000,000	4,000,000		HK$0.4000
Guo Tianjue	11 Jan 2010	–	4,000,000	–	–	4,000,000	4,000,000	11 Jan 2010 to 11 Jan 2012	HK$0.6000
		–	4,000,000	–	–	4,000,000	4,000,000		HK$0.4000
Lam Kit Sun	11 Jan 2010	–	4,000,000	–	–	4,000,000	4,000,000	11 Jan 2010 to 11 Jan 2012	HK$0.6000
		–	4,000,000	–	–	4,000,000	4,000,000		HK$0.4000
(Independent Non-executive Directors)									
Lam Siu Lun, Simon	27 Oct 2009	3,000,000	–	–	–	3,000,000	–	27 Oct 2010 to 27 Oct 2012	HK0.4000
		3,000,000	–	–	–	3,000,000	–	27 Oct 2011 to 27 Oct 2012	HK0.6000
Zhang Xianmin	27 Oct 2009	3,000,000	–	–	–	3,000,000	–	27 Oct 2010 to 27 Oct 2012	HK0.4000
		3,000,000	–	–	–	3,000,000	–	27 Oct 2011 to 27 Oct 2012	HK0.6000
Mohammed Ibrahim Munshi	27 Oct 2009	3,000,000	–	–	–	3,000,000	–	27 Oct 2010 to 27 Oct 2012	HK0.4000
		3,000,000	–	–	–	3,000,000	–	27 Oct 2011 to 27 Oct 2012	HK0.6000
Employees	19 Jun 2006	50,818,600	–	(3,920,000)	–	46,898,600	46,898,600	1 Jan 2007 to 18 Jun 2016	HK0.1016
	5 Jul 2007	3,300,000	–	–	–	3,300,000	2,200,000	1 Jul 2008 to 18 Jun 2016	HK0.7400
	21 Dec 2009	3,000,000	–	–	–	3,000,000	3,000,000	21 Dec 2009 to 21 Dec 2010	HK0.4240
	21 Dec 2009	3,000,000	–	–	–	3,000,000	–	21 Dec 2010 to 21 Dec 2012	HK0.4240
	21 Dec 2009	3,000,000	–	–	–	3,000,000	–	21 Dec 2011 to 21 Dec 2012	HK0.6000

(1) The closing price of the shares immediately before the date on which the options were granted was HK$0.3950.

(2) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$0.4615.

(3) The fair value of share options granted during the Period was approximately HK$5.7 million.

Corporate Governance and Other Information

Code on Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance. Throughout the six months ended 30 June 2010, the Company has substantially complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of 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 as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had compiled with the required standards as set out in the Model Code during the six months ended 30 June 2010.

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. Mohammed Ibrahim Munshi, 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 2010.

Purchase, Redemption or Sale of Listed Securities

During the six months ended 30 June 2010, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities.

On behalf of the Board
Kiu Hung Energy Holdings Limited
Hui Kee Fung
Chairman
Hong Kong, 31 August 2010