福山國際能源集團有限公司

Fushan International Energy Group Limited

Stock Code: 639

福山能源 FSE

DISCOVER THE VALUE

INTERIM REPORT 2010

CONTENTS

CORPORATE INFORMATION

Board of Directors

Wang Pingsheng *(Chairman)*
Chen Zhouping
(Vice Chairman and Managing Director)
Wong Lik Ping *(Vice Chairman)*
So Kwok Hoo
(Deputy Managing Director)
Chen Zhaoqiang
(Deputy Managing Director)
Xue Kang *(Deputy Managing Director)*
Liu Qingshan
(Deputy Managing Director)
Leung Shun Sang, Tony
(Non-executive Director)
Zhang Yaoping
(Non-executive Director)
Zhang Wenhui
(Non-executive Director)
Kee Wah Sze
(Independent Non-executive Director)
Choi Wai Yin
(Independent Non-executive Director)
Chan Pat Lam
(Independent Non-executive Director)

Executive Committee

Wang Pingsheng *(Chairman)*
Chen Zhouping
Wong Lik Ping
So Kwok Hoo
Chen Zhaoqiang
Xue Kang
Liu Qingshan

Audit Committee

Choi Wai Yin *(Chairman)*
Kee Wah Sze
Chan Pat Lam

Nomination Committee

Wang Pingsheng *(Chairman)*
Wong Lik Ping
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam

Remuneration Committee

Leung Shun Sang, Tony *(Chairman)*
So Kwok Hoo
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam

Company Secretary

Cheng Man Ching

Auditors

Grant Thornton
Certified Public Accountants

Share Registrars

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

Registered Office and Principal Place of Business

6th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Stock Code

639

Website

www.fushan.com.hk

FINANCIAL HIGHLIGHTS

- 2010 interim operating profit of HK$1,357 million, representing an increase of HK$152 million or 13% over the same period of 2009.
- 2010 interim net profit after tax of HK$1,060 million, representing an increase of HK$140 million or 15% over the same period of 2009.
- 2010 interim net profits attributable to Owners of the Company of HK$837 million, representing an increase of HK$68 million or 9% over the same period of 2009.
- 2010 interim gross profit margin achieved at 70%.
- 2010 interim EBITDA[1] of HK$1,586 million, representing an increase of HK$170 million or 12% over the same period of 2009.
- 2010 interim basic earnings per share was HK15.56 cents.
- 2010 interim dividend was HK5 cents per share.
- Net assets of HK$17,758 million as at 30 June 2010.
- Gearing ratio[2] was 7% as at 30 June 2010.

Note:

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

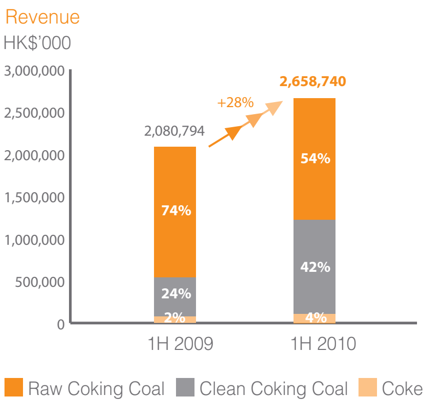
FINANCIAL HIGHLIGHTS (Continued)

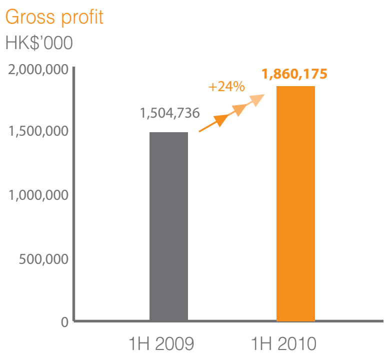
(HK$'000)	For the six months ended 30 June 2010	For the six months ended 30 June 2009	Percentage change
Revenue	**2,658,740**	2,080,794	+28%
Gross profit	**1,860,175**	1,504,736	+24%
Gross profit margin	**70%**	72%	-3%
Operating profit	**1,356,550**	1,204,948	+13%
EBITDA	**1,586,257**	1,415,844	+12%
Profit for the period	**1,060,250**	920,087	+15%
Profit attributable to Owners	**836,782**	768,506	+9%
Earnings per share (HK cents)	**15.56**	16.82	-7%

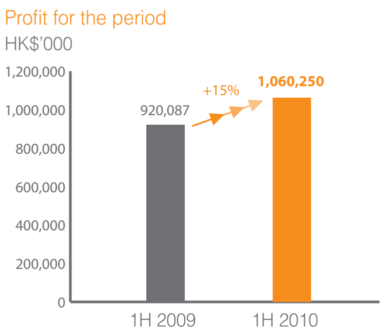
(HK$'000)	As at 30 June 2010	As at 31 December 2009	Percentage change
Total assets	**23,293,776**	22,557,408	+3%
of which: Cash and cash equivalents	**2,109,860**	2,104,478	–
Bills receivables	**1,058,500**	601,067	+76%
Total liabilities	**5,535,940**	5,227,644	+6%
of which: Total borrowings	**1,281,084**	806,085	+59%
Gearing ratio	**7.21%**	8.11%	+11%
Net current assets	**2,528,063**	1,509,045	+68%
Total equity	**17,757,836**	17,329,764	+2%
of which: Equity attributable to Owners	**16,277,021**	15,825,194	+3%

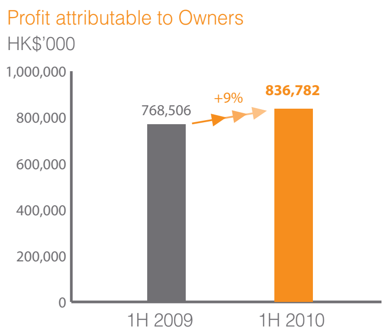
FINANCIAL HIGHLIGHTS (Continued)

PROFIT & LOSS SUMMARY

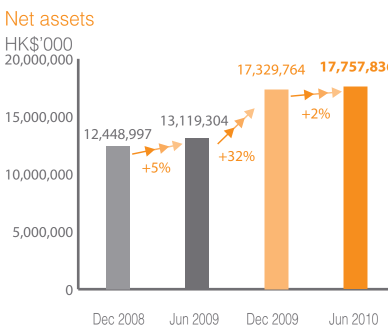


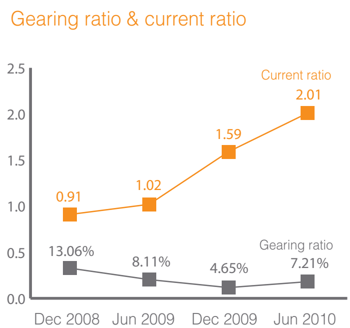






HEALTHY FINANCIAL POSITION





CHAIRMAN'S STATEMENT

Dear Honorable Shareholders,

On behalf of the Board of Directors (the "Board") of Fushan International Energy Group Limited ("Fushan Energy" or the "Company"), I hereby present the interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2010 (the "Review Period").

Steady increase in coking coal prices during the first half

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

Stable growth of the Group's business

During the Review Period, the Group maintained steady growth in our operations with the strong support from all sides and the dedication of all of our staff members. Especially, Shougang Group, who is our largest shareholder, had continued to extend her support to us. Shougang Group had increased her shareholding from end of last year's 26.51% to 27.16% by July this year, this clearly reflects her confidence in our future business outlook.

For the six months ended 30 June 2010, the Group produced a total of 2.96 million tonnes of raw coking coal and 0.68 million tonnes of clean coking coal. The year-on-year average realised selling price of raw coking coal and clean coking coal increased by 34% and 30% respectively. However, the year-on-year production volume of raw coking coal was lower in the first half of this year because we took time to change the long walls in our mines in the second quarter, to increase production efficiency and to provide a better working environment to our miners. Operations of all mines had resumed and we expect production to be on track in the second half of the year.

Benefiting from the increase in average selling price and resulting from the continued effort for the improvement of our operation efficiency, the Group's year-on-year gross profit increased from last year's HK$1,505 million to this year's HK$1,860 million by HK$355 million, our gross margin reached 70% during the Review Period. These satisfactory results not only generated a stable cash flow for us, but also laid a solid foundation for our sustainable growth.

The Group achieved net profit of HK$1,060 million for the first half of this year, an year-on-year increase of 15%. Profit attributable to owners of the Company soared by 9% to HK$837 million during the Review Period. A non-cash share-based compensation expense of HK$147 million incurred in the first half of this year arising from share options granted by the Company in August 2009. Had this expense been excluded, net profit and profit attributable to owners of the Company this period would have been HK$1,207 million and HK$984 respectively, a year-on-year increase by 31% and 28% respectively.

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

To express our gratitude to our shareholders for their continued support, the Board recommended the payment of an interim dividend of HK5 cents per share, which represented a payout ratio of 32%.

Satisfactory performance of three premium coking coal mines in Liulin County

We operate three premier coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine). They ran smoothly and maintained excellent safety records. Xingwu Coal Mine and Jinjiazhuang Coal Mine have their own coal processing plants. Their total input processing capacity reached 4.2 million tonnes per annum. In order to use our rich coal resources more efficiently to achieve greater economies of scale through the extension of our value chain, we are building a new coal processing plant at Zhaiyadi Coal Mine. It is scheduled to commence operation at the end of this year. Our annual input processing capacity will then increase substantially to 6.3 million tonnes, helping us meet the demand for clean coking coal from various steelmakers. Meanwhile, another new coal processing plant at Jinshan is also under construction and is planned to commence operations next year. Our total input processing capacity will thus be further enhanced to 11 million tonnes.

During the Review Period, we continued to extend our efforts to maintain long-term strategic cooperation with domestic steelmakers, thereby creating a stable customer base and driving the sustainable growth of our businesses. A number of leading players in domestic steel sector, including Shougang Group, which is our largest shareholder, Hebei Iron and Steel Group and Baotou Iron and Steel Group, had been our long-term customers and established good business relationships. This enables us to further expand our operations.

Optimistic yet cautious outlook in the coking coal sector

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

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

Last, but not least, on behalf of all members of the Board, I would like to express my gratitude to all shareholders, management team and staff members for their continued support and contributions to the Group.

Wang Pingsheng
Chairman

Hong Kong, 26 August 2010

Grant Thornton
均富

Member of Grant Thornton International Ltd

Independent review report to the Board of Directors of
Fushan International Energy Group Limited
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 10 to 33 which comprise the consolidated statement of financial position of Fushan International Energy Group Limited as of 30 June 2010 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with HKAS 34.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

26 August 2010

INTERIM RESULTS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**2,658,740**	2,080,794
Cost of sales		**(798,565)**	(576,058)
Gross profit		**1,860,175**	1,504,736
Other operating income	*4*	**51,306**	18,218
Selling and distribution expenses		**(158,664)**	(96,132)
General and administrative expenses		**(314,107)**	(110,777)
Other operating expenses		**(82,160)**	(111,097)
Operating profit		**1,356,550**	1,204,948
Gain on disposal of a subsidiary	*5*	**–**	29,542
Finance costs	*6*	**(34,945)**	(98,469)
Change in fair value of derivative financial instruments		**(3,500)**	–
Share of losses of associates		**(279)**	(106)
Profit before income tax	*7*	**1,317,826**	1,135,915
Income tax expense	*8*	**(257,576)**	(215,828)
Profit for the period		**1,060,250**	920,087
Other comprehensive income, net of tax			
Exchange differences on translation of financial statements of foreign operations		**152,081**	(19,134)
Fair value loss on available-for-sale financial assets		**(87,477)**	–
Total comprehensive income for the period		**1,124,854**	900,953
Profit attributable to:			
Owners of the Company		**836,782**	768,506
Non-controlling interest		**223,468**	151,581
Profit for the period		**1,060,250**	920,087

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Total comprehensive income attributable to:			
Owners of the Company		**882,026**	751,444
Non-controlling interest		**242,828**	149,509
Total comprehensive income for the period		**1,124,854**	900,953
Earnings per share for profit attributable to Owners of the Company during the period	*10*		
– Basic		**HK15.56 cents**	HK16.82 cents
– Diluted		**HK15.48 cents**	HK16.69 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	At 30 June 2010 (Unaudited) HK$'000	At 31 December 2009 (Audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**2,733,650**	2,535,879
Prepaid lease payments		**56,254**	56,273
Mining rights		**10,287,335**	10,289,882
Goodwill		**2,105,207**	2,080,050
Interests in associates		**19,152**	19,196
Available-for-sale financial assets		**2,157,844**	2,214,369
Deposits, prepayments and other receivables		**423,750**	323,004
Loan to a party	12	**468,684**	–
Amount due from a party	12	**–**	937,150
Deferred tax assets		**10,574**	20,191
		18,262,450	18,475,994
Current assets			
Inventories		**151,091**	159,485
Trade and bills receivables	13	**1,739,636**	1,113,647
Deposits, prepayments and other receivables		**158,524**	196,022
Loan to a party	12	**468,683**	–
Amounts due from other parties		**287,042**	376,044
Financial assets at fair value through profit or loss		**12,990**	25,967
Pledged bank deposits	14	**103,500**	105,771
Cash and cash equivalents	15	**2,109,860**	2,104,478
		5,031,326	4,081,414

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2010

	Notes	At 30 June 2010 (Unaudited) *HK$'000*	At 31 December 2009 (Audited) *HK$'000*
Current liabilities			
Trade and bills payables	*16*	**373,049**	328,732
Other payables and accruals		**1,280,829**	1,753,024
Borrowings	*17*	**280,409**	162,420
Amounts due to other parties		**32,629**	27,526
Amounts due to related companies		**12,155**	12,008
Amounts due to non-controlling shareholders of subsidiaries		**315,670**	42,964
Tax payables		**208,522**	245,695
		2,503,263	2,572,369
Net current assets		**2,528,063**	1,509,045
Total assets less current liabilities		**20,790,513**	19,985,039
Non-current liabilities			
Borrowings	*17*	**1,000,675**	643,665
Deferred tax liabilities		**2,032,002**	2,011,610
		3,032,677	2,655,275
Net assets		**17,757,836**	17,329,764
EQUITY			
Equity attributable to Owners of the Company			
Share capital	*18*	**538,056**	537,056
Reserves		**15,738,965**	15,288,138
		16,277,021	15,825,194
Non-controlling interest		**1,480,815**	1,504,570
Total equity		**17,757,836**	17,329,764

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Equity attributable to Owners of the Company								Non-controlling interest	Total equity
	Share capital	Share premium	Statutory reserve	Other reserves	(Accumulated losses)/ Retained profits	Share-based compensation reserve	Translation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009 (Audited)	456,456	10,384,646	107,343	–	(183,861)	36,999	20,156	10,821,739	1,627,258	12,448,997
Disposal of a subsidiary (Unaudited)	–	–	–	–	–	–	–	–	(437)	(437)
Issue of new shares upon conversion of share options (Unaudited)	1,740	31,552	–	–	–	(7,215)	–	26,077	–	26,077
Dividends (Unaudited)	–	–	–	–	–	–	–	–	(256,286)	(256,286)
Transactions with Owners (Unaudited)	1,740	31,552	–	–	–	(7,215)	–	26,077	(256,723)	(230,646)
Profit for the period (Unaudited)	–	–	–	–	768,506	–	–	768,506	151,581	920,087
Other comprehensive income:										
– Exchange differences on translation of financial statements of foreign operations (Unaudited)	–	–	–	–	–	–	(17,062)	(17,062)	(2,072)	(19,134)
Total comprehensive income for the period (Unaudited)	–	–	–	–	768,506	–	(17,062)	751,444	149,509	900,953
Appropriations to statutory reserve (Unaudited)	–	–	74,725	–	(74,725)	–	–	–	–	–
Appropriations to other reserves (Unaudited) *(note)*	–	–	–	64,887	(64,887)	–	–	–	–	–
Appropriations to other reserves for prior year as a result of the change in PRC regulations (Unaudited) *(note)*	–	–	–	9,347	(9,347)	–	–	–	–	–
At 30 June 2009 (Unaudited)	458,196	10,416,198	182,068	74,234	435,686	29,784	3,094	11,599,260	1,520,044	13,119,304

Note: In accordance with the Notice of the Ministry of Finance and the State Administration of Safety Coal Mine in Liulin Province in May 2005 (Liucaizi [2005] No. 35), entities engaged in coal mining are required to provide for production maintenance fee and safety fund at fixed rates on coal production volume. These funds were charged as expenses in profit or loss and accounted for as payables accordingly. The payable balance not utilised at the end of financial year was reversed against the cost of related production when the Group prepared its financial statements in accordance with Hong Kong Financial Reporting Standards in previous years.

On 23 June 2009, the Ministry of Finance issued a notice of the Ministry of Finance issuing No. 3 document (Caikuai [2009] No.8) which provides that production maintenance fee and safety fund and other expense of similar nature are required to be charged to cost of production and credited to other reserves retrospectively. Accordingly, during the period, these funds are appropriated from retained profits. Appropriations to other reserves for prior year were adjusted by the Group in 2009.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2010

	Equity attributable to Owners of the Company									Non-controlling interest	Total equity
	Share capital	Share premium	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010 (Audited)	537,056	14,601,448	168,293	147,698	234,169	115,860	(100)	20,770	15,825,194	1,504,570	17,329,764
Share-based compensation (Unaudited)	–	–	–	–	–	146,681	–	–	146,681	–	146,681
Issue of new shares upon conversion of share options (Unaudited)	1,000	17,455	–	–	–	(3,473)	–	–	14,982	–	14,982
Dividends (Unaudited)	–	–	–	–	(591,862)	–	–	–	(591,862)	(266,583)	(858,445)
Transactions with Owners (Unaudited)	1,000	17,455	–	–	(591,862)	143,208	–	–	(430,199)	(266,583)	(696,782)
Profit for the period (Unaudited)	–	–	–	–	836,782	–	–	–	836,782	223,468	1,060,250
Other comprehensive income:											
– Fair value loss on available-for-sale financial assets (Unaudited)	–	–	–	–	–	–	(87,477)	–	(87,477)	–	(87,477)
– Exchange differences on translation of financial statements of foreign operations (Unaudited)	–	–	–	–	–	–	–	132,721	132,721	19,360	152,081
Total comprehensive income for the period (Unaudited)	–	–	–	–	836,782	–	(87,477)	132,721	882,026	242,828	1,124,854
Appropriations to other reserves (Unaudited)	–	–	–	63,797	(63,797)	–	–	–	–	–	–
Appropriations to statutory reserve (Unaudited)	–	–	46,079	–	(46,079)	–	–	–	–	–	–
Lapse of share options (Unaudited)	–	–	–	–	12,511	(12,511)	–	–	–	–	–
At 30 June 2010 (Unaudited)	538,056	14,618,903	214,372	211,495	381,724	246,557	(87,577)	153,491	16,277,021	1,480,815	17,757,836

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*
Cash flows from operating activities		
Profit before income tax	**1,317,826**	1,135,915
Adjustments for:		
Amortisation of prepaid lease payments	**708**	752
Amortisation of mining rights	**128,443**	135,105
Depreciation of property, plant and equipment	**100,556**	75,039
Finance costs	**34,945**	98,469
Share-based compensation	**146,681**	–
Write-down of inventories to net realisable value	**16,631**	19,307
Share of losses of associates	**279**	106
Interest income	**(8,014)**	(2,120)
Gain on disposal of a subsidiary	**–**	(29,542)
Gain on disposal of property, plant and equipment	**(293)**	(265)
Change in fair value of derivative financial instruments	**3,500**	–
Net foreign exchange (gain)/loss	**(14,851)**	484
Operating profit before working capital changes	**1,726,411**	1,433,250
Increase in inventories	**(6,286)**	(50,189)
Increase in trade and bills receivables	**(612,364)**	(158,147)
Decrease in deposits, prepayments and other receivables	**49,905**	48,176
Decrease in amounts due from other parties	**96,437**	259,026
Increase in trade and bills payables	**40,295**	364,204
Decrease in other payables and accruals	**(535,631)**	(160,026)
Decrease in amount due to a director	**–**	(20,000)
Increase/(Decrease) in amounts due to other parties	**6,109**	(27,479)
Increase in amounts due to non-controlling shareholders of subsidiaries	**3,345**	–
Cash generated from operations	**768,221**	1,688,815
Income tax paid	**(292,111)**	(439,928)
Net cash generated from operating activities	**476,110**	1,248,887

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(367,715)**	(474,133)
Proceeds from disposals of property, plant and equipment	**971**	283
Proceeds from disposal of a subsidiary *(Note 5)*	**–**	124,754
Payments to acquire available-for-sale financial assets	**(21,372)**	–
Interest received	**6,312**	2,120
Net cash used in investing activities	**(381,804)**	(346,976)
Cash flows from financing activities		
Net proceeds from exercise of share options	**14,982**	26,077
Proceeds from bank loans	**460,000**	325,437
Repayments of bank loans	**–**	(829,019)
Proceeds from other loans	**17,135**	2,155
Repayments of other loans	**(17,287)**	(78,782)
Repayments to non-controlling shareholders of subsidiaries	**–**	(59,995)
Decrease/(Increase) in pledged bank deposits	**3,565**	(337,285)
Finance costs paid	**(26,259)**	(119,106)
Dividends paid to shareholders	**(540,030)**	–
Dividends paid to non-controlling interest	**–**	(149,209)
Net cash used in financing activities	**(87,894)**	(1,219,727)
Net increase/(decrease) in cash and cash equivalents	**6,412**	(317,816)
Cash and cash equivalents at 1 January	**2,104,478**	760,163
Effect of foreign exchange rates changes	**(1,030)**	(4,985)
Cash and cash equivalents at 30 June	**2,109,860**	437,362

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements

Various – Annual Improvements to HKFRSs 2009

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

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

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

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

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

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

4. OTHER OPERATING INCOME

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

5. GAIN ON DISPOSAL OF A SUBSIDIARY

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

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

5. GAIN ON DISPOSAL OF A SUBSIDIARY (Continued)

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

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

6. FINANCE COSTS

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

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

7. PROFIT BEFORE INCOME TAX

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

* Included in other operating expenses

8. INCOME TAX EXPENSE

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

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

8. INCOME TAX EXPENSE (Continued)

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

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

9. DIVIDENDS

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

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

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

10. EARNINGS PER SHARE

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

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

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of HK$267,936,000 (six months ended 30 June 2009: HK$230,836,000) mainly in relation to the construction in progress for coal preparation plants and mining infrastructure. Plant and equipment with a net book value of HK$678,000 was disposed during the six months ended 30 June 2010 (six months ended 30 June 2009: HK$18,000).

During the period, the interest expense amounting to approximately HK$6,621,000 (six months ended 30 June 2009: Nil) was capitalised in property, plant and equipment.

The net carrying amount of the property, plant and equipment held under finance leases amounting to approximately HK$10,189,000 as at 30 June 2010 (31 December 2009: HK$10,887,000) included in buildings. The buildings are situated in the PRC and are held on leases of between 10 to 50 years.

As at 30 June 2009, certain property, plant and equipment with aggregate net carrying amount of approximately HK$502,367,000 were pledged for the banking facilities denominated in RMB494,033,000 (HK$560,295,000 equivalent) granted to the Group (Note 17). The pledge was released upon the settlement of the banking facilities during the year ended 31 December 2009.

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 30 June 2010, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately HK$11,658,000 (31 December 2009: HK$11,896,000). In the opinion of directors, the Group would obtain the rights to use the buildings.

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

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

13. TRADE AND BILLS RECEIVABLES

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

13. TRADE AND BILLS RECEIVABLES (Continued)

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

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

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

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

14. PLEDGED BANK DEPOSITS

As at 30 June 2010, all pledged bank deposits of HK$103,500,000 (31 December 2009: HK$105,771,000) were denominated in RMB and were pledged for bills payables of RMB90,000,000 (HK$103,500,000 equivalent) (Note 16).

The directors of the Company consider that the fair value of the pledged bank deposits is not materially different from their carrying amount because of short maturity period.

15. CASH AND CASH EQUIVALENTS

	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
Cash at banks and on hand	**218,765**	659,307
Short term bank deposits	**1,891,095**	1,445,171
	2,109,860	2,104,478

16. TRADE AND BILLS PAYABLES

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

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

As at 30 June 2010, bills payables of RMB90,000,000 (HK$103,500,000 equivalent) (31 December 2009: RMB90,300,000 (HK$102,590,000 equivalent)) were secured by pledged bank deposits of RMB90,000,000 (HK$103,500,000 equivalent) (31 December 2009: RMB93,100,000 (HK$105,771,000 equivalent)) (Note 14).

17. BORROWINGS

	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
Current		
Bank loans – secured	**227,863**	111,238
Other loans	**50,696**	50,233
Finance lease payables	**1,850**	949
	280,409	162,420
Non-current		
Bank loans – secured	**997,830**	640,231
Finance lease payables	**2,845**	3,434
	1,000,675	643,665
Total borrowings	**1,281,084**	806,085

17. BORROWINGS (Continued)

During the six months ended 30 June 2010, two loans, each of RMB200,000,000 (the "loans") had been drawn down from a bank. The terms of each of the loans are 2 years and the loans are used as the working capital. Interests on the loans are charged at the floating rate adopted by The People's Bank of China. The Company has given guarantee to the bank for the loans.

18. SHARE CAPITAL

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

19. COMMITMENTS

(a) Operating lease commitments

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

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

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

(b) Capital commitments

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

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

19. COMMITMENTS (Continued)

(c) Other commitments

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

20. FINANCIAL GUARANTEE CONTRACTS

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

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

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

21. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the Interim Financial Report, the following related party transactions for the periods ended 30 June 2010 and 2009 were carried out with related parties.

(i) During the period ended 30 June 2010, the Group paid management fees and company secretarial service fees of HK$1,020,000 (six months ended 30 June 2009: Nil) to Shougang Concord International Enterprises Company Limited ("Shougang International"), which is one of major shareholders of the Company, and paid rental expenses of HK$900,000 (six months ended 30 June 2009: Nil) to a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang Holding") which is the controlling shareholder of Shougang International.

(ii) During the period ended 30 June 2010, the Group sold coking coal amounting to HK$49,627,000 (six months ended 30 June 2009 : Nil) to Shougang Corporation and group companies of Shougang Corporation (collectively referred to as "Shougang Group") and also sold coking coal amounting to HK$5,456,000 (six months ended 30 June 2009 : Nil) to a wholly-owned subsidiary of Shougang International ("Shougang International Subsidiary"). Shougang Corporation is the ultimate holding company of Shougang Holding. These sales are made at market prices with a maximum discount of 3%. As at 30 June 2010, the balance of HK$32,993,000 (30 June 2009 : Nil) due from Shougang Group included in trade and bills receivables was still outstanding. In addition, as at 30 June 2010, the balance of HK$39,616,000 (30 June 2009 : Nil) due to Shougang International Subsidiary included in other payables and accruals was related to receipt in advance payment for future sales.

(iii) Included in staff costs are key management personnel compensation and comprise the following categories:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Basic salaries, housing allowance, other allowances and benefits in kind	**29,563**	7,611
Retirement benefits scheme contributions	**51**	21
Share-based compensation	**45,813**	–
	75,427	7,632

22. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, one of the guarantees amounting to RMB200,000,000 given by Xingwu, as disclosed in note 20 to the interim consolidated financial statements, has been expired and released.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

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

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

Business Review

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

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

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

Business Review (Continued)

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

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

Financial Review

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

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

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

Cost of Sales

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

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

Gross Profit and Gross Profit Margin

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

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

Other Operating Income

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

Selling and Distribution Expenses

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

General and Administrative Expenses

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

Other Operating Expenses

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

Finance Costs

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

Income Tax Expense

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

Owner's Attributable Profit

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

Material Investments and Acquisitions

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

Material Disposals

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

Safety Production and Environmental Protection

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

Charges on Assets

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

Contingent Liabilities

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

Gearing Ratio

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

Exposure to Fluctuations in Exchange Rates

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

Liquidity and Financial Resources

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

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

Capital Structure

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

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

Capital Structure (Continued)

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

Employees

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

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

FUTURE PROSPECTS

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

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

INTERIM DIVIDEND

The Board has declared an interim dividend of HK5 cents per share for the six months ended 30 June 2010 (2009: HK$10 cents per share) payable to shareholders whose names appear on the register of members of the Company on Friday, 17 September 2010. The interim dividend is expected to be paid on or about Monday, 4 October 2010.

CLOSURE OF REGISTER OF MEMBERS

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

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

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 30 June 2010 had the following interests in the shares and underlying shares of the Company as at 30 June 2010 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(a) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests are held	Number of shares/underlying shares in the Company: Interests in shares	Interests in underlying shares	Total interests	Total interests as to % of the issued share capital of the Company as at 30.06.2010
Chen Zhouping	Beneficial owner	–	6,000,000*	6,000,000	0.11%
Wong Lik Ping ("Mr. Wong")	Beneficial owner, interests of controlled corporation	591,571,900#	4,500,000*	596,071,900	11.07%
So Kwok Hoo	Beneficial owner	4,000,000	3,500,000*	7,500,000	0.13%
Chen Zhaoqiang	Beneficial owner	280,000	8,000,000*	8,280,000	0.15%
Xue Kang	Beneficial owner	6,000,000	3,000,000*	9,000,000	0.16%
Liu Qingshan	Beneficial owner	–	6,000,000*	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000*	6,000,000	0.11%
Zhang Yaoping	Beneficial owner	–	4,500,000*	4,500,000	0.08%
Kee Wah Sze	Beneficial owner	700,000	3,200,000*	3,900,000	0.07%
Choi Wai Yin	Beneficial owner	300,000	3,500,000^	3,800,000	0.07%
Chan Pat Lam	Beneficial owner	600,000	3,200,000*	3,800,000	0.07%

* The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 20 June 2003 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options" below.

Mr. Wong indicated in his disclosure form dated 14 May 2010 (being the latest disclosure form filed up to 30 June 2010) that as at 11 May 2010, his interests included 396,600,000 shares of the Company held by China Merit Limited which was wholly-owned by Mr. Wong. The interest held by China Merit Limited ("China Merit") was disclosed under the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" below.

^ The relevant interest included 3,200,000 underlying shares attached to the share options granted by the Company pursuant to the Scheme and 300,000 underlying shares attached to cash settled futures which will expire on 30 November 2010.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(b) Short positions in the shares of the Company

Name of Director	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2010
Mr. Wong	Interests of controlled corporation	206,900,000#	3.84%

\# Mr. Wong indicated in his disclosure form dated 14 May 2010 (being the latest disclosure form filed up to 30 June 2010) that as at 11 May 2010, the interest was held by China Merit which was wholly-owned by Mr. Wong. The interest held by China Merit was disclosed under the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" below.

Save as disclosed above, as at 30 June 2010, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2010.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2010, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests or short positions in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2010	*Note(s)*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	1,423,962,490	26.46%	*1*
Shougang Concord International Enterprises Company Limited ("Shougang International")	Beneficial owner, Interests of controlled corporations	1,314,872,497	24.43%	*1*
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.33%	*1*
Mr. Xing Libin ("Mr. Xing")	Beneficial owner, Interests of controlled corporation	422,772,081	7.85%	*2*
Firstwealth Holdings Limited ("Firstwealth")	Beneficial owner	418,272,081	7.77%	*2*
China Merit	Beneficial owner	396,600,000	7.37%	*3*

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Continued)

(b) Short positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2010	*Note(s)*
Mr. Xing	Interests of controlled corporation	267,818,612	4.97%	*2*
Firstwealth	Beneficial owner	267,818,612	4.97%	*2*
China Merit	Beneficial owner	206,900,000	3.84%	*3*

Notes:

1. Shougang Holding indicated in its disclosure form dated 4 January 2010 (being the latest disclosure form filed up to 30 June 2010) that as at 30 December 2009, its interests included the interests held by Shougang International, a company which was held as to 41.9% by Shougang Holding, and Fine Power, a company which is a wholly-owned subsidiary of Shougang International.

   Shougang International indicated in its disclosure form dated 4 January 2010 (being the latest disclosure form filed up to 30 June 2010) that as at 30 December 2009, its interests included the interests held by Fine Power.

2. Mr. Xing indicated in his disclosure form dated 15 June 2010 (being the latest disclosure form filed up to 30 June 2010) that as at 11 June 2010, his interests included the interests held by Firstwealth, a company which was wholly-owned by Mr. Xing.

3. China Merit was wholly owned by Mr. Wong, a director of the Company, and its interest was disclosed as the interest of Mr. Wong under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

Save as disclosed above, as at 30 June 2010, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

On 20 June 2003, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company. No share option was granted or cancelled in accordance with the terms of the Scheme during the six months ended 30 June 2010. Details of movements in the share options under the Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company						Date of grant	Exercise period	Exercise price per share
	At the beginning of the period	Transferred to other category during the period	Transferred from other category during the period	Exercised during the period[1]	Lapsed during the period	At the end of the period			
Directors of the Company									
Cao Zhong	15,000,000	–	–	–	(15,000,000)[2]	–	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chen Zhouping	6,000,000	–	–	–	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Mr. Wong	4,500,000	–	–	–	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
So Kwok Hoo	3,500,000	–	–	–	–	3,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chen Zhaoqiang	–	–	8,000,000[3]	–	–	8,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Xue Kang	3,000,000	–	–	–	–	3,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Liu Qingshan	6,000,000	–	–	–	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Leung Shun Sang, Tony	6,000,000	–	–	–	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Zhang Yaoping	–	–	4,500,000[4]	–	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Shi Jianping	4,500,000	(4,500,000)[5]	–	–	–	–	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Kee Wah Sze	3,200,000	–	–	–	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Choi Wai Yin	3,200,000	–	–	–	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chan Pat Lam	3,200,000	–	–	–	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	58,100,000	(4,500,000)	12,500,000	–	(15,000,000)	51,100,000			
Employees of the Group	16,000,000	–	–	(10,000,000)	–	6,000,000	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	106,950,000	(8,000,000)[3]	–	–	(2,800,000)[6]	96,150,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	122,950,000	(8,000,000)	–	(10,000,000)	(2,800,000)	102,150,000			
Other participants	116,000,000	(4,500,000)[4]	4,500,000[5]	–	–	116,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	116,000,000	(4,500,000)	4,500,000	–	–	116,000,000			
	297,050,000	(17,000,000)	17,000,000	(10,000,000)	(17,800,000)	269,250,000			

SHARE OPTIONS (Continued)

Notes:

1. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was HK$7.115 per share.

2. Mr. Cao Zhong resigned as an Executive Director of the Company on 10 May 2010. Such share options lapsed during the period.

3. Mr. Chen Zhaoqiang was appointed as an Executive Director and Deputy Managing Director of the Company on 5 January 2010. Such share options were re-classified from the category of "Employees of the Group" to "Directors of the Company" during the period.

4. Mr. Zhang Yaoping was appointed as a Non-executive Director of the Company on 1 January 2010. Such share options were re-classified from the category of "Other participants" to "Directors of the Company" during the period.

5. Mr. Shi Jianping resigned as a Non-executive Director of the Company on 1 January 2010. Such share options were re-classified from the category of "Directors of the Company" to "Other participants" during the period.

6. The share options were held by two grantees who ceased to be employees of the Group on 20 March 2010 and 27 June 2010 respectively. Such share options lapsed during the period.

AUDIT COMMITTEE

The Company has engaged the Auditors to assist the Audit Committee to review the 2010 interim results of the Group. A meeting of the Audit Committee was held with the Auditors and the management of the Company on 18 August 2010 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2010.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2010.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The following are the changes in the information of Directors since the date of the 2009 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Chen Zhouping was redesignated from a Non-executive of the Company to an Executive Director and the Vice Chairman and Managing Director of the Company. He was also appointed as a member of the Executive Committee with effect from 10 May 2010.

A service contract has been entered into between Mr. Chen and a wholly-owned subsidiary of the Company on 13 May 2010, which may be terminated by either party by giving to other party not less than three month's written notice without payment of compensation (other than statutory compensation). Under the service contract, Mr. Chen will be entitled to a monthly salary of HK$350,000 (or such higher salary as may be determined by the Board from time to time) and discretionary bonus, which was/will be determined with reference to the prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

APPRECIATION

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

By Order of the Board
Wang Pingsheng
Chairman

Hong Kong, 26 August 2010