

Kiu Hung Energy



2009 INTERIM REPORT 中期報告



僑雄能源控股有限公司
Kiu Hung Energy Holdings Limited

(於開曼群島註冊成立之有限公司)
(Incorporated in the Cayman Islands with limited liability)
(股份代號 Stock Code: 00381)



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 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| TURNOVER | | 50,664 | 63,006 |
| Cost of sales | | (33,396) | (38,944) |
| GROSS PROFIT | | 17,268 | 24,062 |
| Other income | 3 | 1,932 | 5,504 |
| Selling and distribution costs | | (8,739) | (8,176) |
| Administrative expenses | | (14,264) | (15,025) |
| Other operating expenses | | (1,052) | (965) |
| (LOSS)/PROFIT FROM OPERATIONS | | (4,855) | 5,400 |
| Finance costs | 4 | (12,600) | (7,354) |
| Share of profit of a jointly controlled entity | | 275 | 233 |
| LOSS BEFORE TAX | | (17,180) | (1,721) |
| Income tax expense | 5 | (329) | (1,288) |
| LOSS FOR THE PERIOD | 6 | (17,509) | (3,009) |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | (17,807) | (3,536) |
| Minority interests | | 298 | 527 |
| | | (17,509) | (3,009) |
| INTERIM DIVIDEND | 7 | – | – |
| | | <i>HK cent</i> | <i>HK cent</i> |
| LOSS PER SHARE | 8 | | |
| – Basic | | (0.43) | (0.10) |
| – Diluted | | N/A | N/A |



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2009 | 2008 |
| | (unaudited) <i>HK\$'000</i> | (unaudited) <i>HK\$'000</i> |
| LOSS FOR THE PERIOD | (17,509) | (3,009) |
| Other comprehensive income | | |
| Exchange difference arising from translation of foreign operations | (244) | 5,312 |
| TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD | (17,753) | 2,303 |
| TOTAL COMPREHENSIVE (EXPENSE)/INCOME ATTRIBUTABLE TO: | | |
| Owners of the Company | (18,051) | 1,776 |
| Minority interests | 298 | 527 |
| | (17,753) | 2,303 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 30 June 2009 (Unaudited) HK\$'000 | As at 31 December 2008 (Audited) HK\$'000 |
|--|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 66,413 | 63,768 |
| Prepaid land lease payments | | 4,693 | 4,742 |
| Investment properties | | 3,440 | 3,440 |
| Goodwill | | 658,405 | 658,405 |
| Exploration and evaluation assets | | 53,484 | 53,484 |
| Mining rights | | – | – |
| Other intangible assets | | 1,117 | 1,129 |
| Interest in a jointly controlled entity | | 2,018 | 1,743 |
| | | 789,570 | 786,711 |
| CURRENT ASSETS | | | |
| Inventories | | 9,217 | 9,329 |
| Trade receivables | 10 | 8,410 | 5,014 |
| Prepayment, deposits and other receivables | | 2,604 | 2,833 |
| Due from a jointly-controlled entity | | 2,251 | 3,256 |
| Prepaid land lease payments | | 98 | 98 |
| Current tax assets | | 844 | 218 |
| Financial assets at fair value through profit or loss | | 286 | 286 |
| Bank and cash balances | | 83,647 | 69,019 |
| | | 107,357 | 90,053 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 11 | 16,913 | 10,165 |
| Accruals and other payables | | 23,211 | 21,585 |
| Due to a shareholder | | 163 | 211 |
| Current tax liabilities | | 585 | 398 |
| Borrowings | 12 | 77,624 | 38,673 |
| Convertible notes | 13 | 241,917 | – |
| Derivative financial instruments | 13 | 1,445 | 1,059 |
| Promissory notes | | 95,416 | 95,416 |
| | | 457,274 | 167,507 |
| NET CURRENT LIABILITIES | | (349,917) | (77,454) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 439,653 | 709,257 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 12 | 503 | 18,376 |
| Deferred tax liabilities | | 3,920 | 3,920 |
| Convertible notes | 13 | – | 234,128 |
| | | 4,423 | 256,424 |
| NET ASSETS | | 435,230 | 452,833 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 82,315 | 82,315 |
| Reserves | | 350,666 | 368,567 |
| Total equity attributable to equity holders of the Company | | 432,981 | 450,882 |
| Minority interests | | 2,249 | 1,951 |
| TOTAL EQUITY | | 435,230 | 452,833 |



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash inflow from operating activities | 1,415 | 6,359 |
| Net cash outflow from investing activities | (5,798) | (290) |
| Net cash inflow from financing activities | 19,065 | 3,981 |
| Net increase in | | |
| cash at banks and in hand | 14,682 | 10,050 |
| Cash at banks and in hand at 1 January | 69,019 | 70,557 |
| Effect of foreign exchange rate changes | (54) | (1,439) |
| Cash at banks and in hand at 30 June | 83,647 | 79,168 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Opening balance – Total equity | 452,833 | 449,095 |
| Total comprehensive (expense)/income for the period | (17,753) | 2,303 |
| Issue of consideration shares | – | 129,000 |
| Exercise of share options | – | 209 |
| Share-based compensation | 150 | 725 |
| Closing balance – Total equity | 435,230 | 581,332 |



NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by The Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies used in preparation of these condensed interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2008 except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRS") and Interpretations which are effective for accounting periods beginning on or after 1 January 2009 as set out below:

| | |
|--|--|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an Investment in Subsidiary, Jointly Controlled Entity and Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 9 and HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HKFRSs (Amendments) | Improvements to HKFRSs 2008 |

The adoption of the above new and revised HKFRSs has no material impact on these condensed consolidated financial statements except for as described below:

HKAS 1 (Revised) has introduced a number of terminology changes and has resulted in changes in the presentation and disclosures. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving as the starting point for the identification of such segments. HKFRS 8 results in a redesignation of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group. HKFRS 8 has been applied retrospectively.



NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)*

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

| | | Effective for accounting periods beginning on or after |
|---------------------|--|---|
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements | 1 July 2009 |
| HKAS 39 (Amendment) | Eligible Hedged Items | 1 July 2009 |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs | 1 July 2009 |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters | 1 January 2010 |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions | 1 January 2010 |
| HKFRS 3 (Revised) | Business Combinations | 1 July 2009 |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners | 1 July 2009 |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers | # |
| HKFRSs (Amendments) | Improvements to HKFRSs 2008 | @ |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 | * |

Effective for transfers on or after 1 July 2009.

@ Amendments to HKFRS 5, effective for accounting periods beginning on or after 1 July 2009.

* Effective for accounting periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company and were approved by the board of directors on 10 September 2009.



NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)*

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and to assess their performance. In this regards, the adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments nor changed the basis of measurement of segment results.

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

| | Exploration and mining | Toys and gift items | Total |
|---------------------------------------|-----------------------------------|--------------------------------|-----------------|
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Six months ended 30 June 2009: | | | |
| Revenue from external customers | – | 50,664 | 50,664 |
| Segment (loss)/profit | (14,071) | 1,298 | (12,773) |

| | | | |
|---------------------------------------|---------|--------|--------|
| Six months ended 30 June 2008: | | | |
| Revenue from external customers | – | 63,006 | 63,006 |
| Segment (loss)/profit | (3,819) | 4,680 | 861 |

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Reconciliations of segment profit or loss: | | |
| Total (loss)/profit of reportable segments | (12,773) | 861 |
| Unallocated amounts: | | |
| Other income | 460 | 555 |
| Unallocated expenses | (1,889) | (3,326) |
| Unallocated finance costs | (3,253) | (44) |
| Share of profit of a jointly controlled entity | 275 | 233 |
| Loss for the period before tax | (17,180) | (1,721) |



NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)*

3. OTHER INCOME

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income | 119 | 306 |
| Rental income, net | 54 | 82 |
| Fair value gain on derivative financial instruments | – | 4,905 |
| Sales of moulds | 1,472 | 44 |
| Others | 287 | 167 |
| | 1,932 | 5,504 |

4. FINANCE COSTS

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2009 | 2008 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank loans and trust receipt loans wholly repayable within five years | 210 | 862 |
| Interest on other loans | 4,601 | 1,342 |
| Interest on convertible notes <i>(note 13)</i> | 7,789 | 5,150 |
| | 12,600 | 7,354 |



NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

5. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|--------------------------------------|---------------------------------|---------------------------------|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| Income tax provision for the period: | | |
| Hong Kong | 242 | 1,288 |
| Elsewhere | 87 | – |
| | 329 | 1,288 |
| Deferred tax | – | – |
| Total income tax expense | 329 | 1,288 |

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 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.

6. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2009 (Unaudited) HK\$'000 | 2008 (Unaudited) HK\$'000 |
| Depreciation | 3,272 | 3,633 |
| Amortisation of prepaid land lease payments | 49 | 82 |
| Amortisation of license rights | 12 | 310 |
| Fair value loss on derivative component of convertible notes (note 13) | 386 | – |
| Staff costs: | | |
| Wages and salaries (including directors emoluments) | 11,753 | 11,907 |
| Pension and MPF costs | 348 | 336 |
| Share-based payment expenses | 150 | 725 |
| | 12,251 | 12,968 |

7. INTERIM DIVIDEND

The Board has resolved not to pay any interim dividend for the period (2008: Nil).



NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

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\$17,807,000 (2008: HK\$3,536,000) and the weighted average of 4,115,759,800 (2008: 3,719,465,769) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 June 2008 and 2009 have not been presented as the impacts of the exercise of share options and convertible notes were anti-dilutive.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group has acquired property, plant and equipment of approximately HK\$5,917,000 (2008: HK\$596,000).

10. TRADE RECEIVABLES

The Group's trading terms with its customers of the gifts and toys segment 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.

An ageing analysis of trade and bills receivables, based on the invoice dates, net of provision, was as follows:

| | As at 30 June 2009 (Unaudited) HK\$'000 | As at 31 December 2008 (Audited) HK\$'000 |
|--------------|---|---|
| 0-30 days | 6,792 | 4,280 |
| 31-90 days | 1,602 | 552 |
| 91-180 days | 16 | 130 |
| 181-360 days | - | 52 |
| | 8,410 | 5,014 |

11. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables based on the invoice dates was as follows:

| | As at 30 June 2009 (Unaudited) HK\$'000 | As at 31 December 2008 (Audited) HK\$'000 |
|---------------|---|---|
| 0-30 days | 6,183 | 3,740 |
| 31-90 days | 5,008 | 2,751 |
| 91-180 days | 3,201 | 2,646 |
| 181-360 days | 2,298 | 733 |
| Over 360 days | 223 | 295 |
| | 16,913 | 10,165 |



NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

12. BORROWINGS

| | As at 30 June 2009 <i>HK\$'000</i> | As at 31 December 2008 <i>HK\$'000</i> |
|------------------------------------|---|---|
| Bank loans | 12,385 | 1,275 |
| Trust receipt loans | 4,537 | 2,524 |
| Other loans | 52,795 | 47,113 |
| Other loans (Non-interest bearing) | 8,410 | 6,137 |
| | 78,127 | 57,049 |
| | As at 30 June 2009 <i>HK\$'000</i> | As at 31 December 2008 <i>HK\$'000</i> |
| Current | | |
| Bank loans | 11,882 | 512 |
| Trust receipt loans | 4,537 | 2,524 |
| Other loans | 52,795 | 29,500 |
| Other loans (Non-interest-bearing) | 8,410 | 6,137 |
| | 77,624 | 38,673 |
| Non-current | | |
| Bank loans | 503 | 763 |
| Other loans | – | 17,613 |
| | 503 | 18,376 |
| Total borrowings | 78,127 | 57,049 |



NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)*

12. BORROWINGS *(Continued)*

At 30 June 2009, the Group's borrowings were secured by:

- (i) Charges over certain of the Group's leasehold land and buildings, prepaid land lease payments and buildings;
- (ii) Charges over the Group's mining rights and fixed assets of the Huanghuashan Coal Mine;
- (iii) Joint and several corporate guarantees provided by the Group's subsidiaries;
- (iv) Corporate guarantees of the Company; and
- (v) Personal guarantee by the Company's director.

13. CONVERTIBLE NOTES

On 28 March 2008, the convertible notes ("CN") of nominal value of HK\$254,065,000 were issued as part of the consideration for the acquisition of subsidiaries. Pursuant to the terms of the CN, the CN are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK\$0.70 each, subject to adjustments, at any time between the date of issue of the CN and 28 March 2010. Any CN not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

The fair value of the CN has been split between the liability component and derivative component as follows:

| | Liability component | Derivative component | Total |
|---|--------------------------------|---------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 January 2009 | 234,128 | 1,059 | 235,187 |
| Interest expense (<i>note 4</i>) | 7,789 | – | 7,789 |
| Fair value loss on derivative component of CN (<i>note 6</i>) | – | 386 | 386 |
| At 30 June 2009 | 241,917 | 1,445 | 243,362 |

The interest charged for the year is calculated by applying an effective interest rate of 6.822% to the liability component since the CN were issued.



NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)*

13. CONVERTIBLE NOTES *(Continued)*

The directors estimate the fair value of the liability component of the CN at 30 June 2009 to be approximately HK\$226,148,000 (31 December 2008: HK\$203,459,000). This fair value has been calculated by discounting the future cash flows at the market rate.

The fair value of the derivative component of the CN was estimated at date of issuance using the Black-Scholes Model and the change in fair value of that component is recognised in the income statement. The residual amount is assigned as the liability component.

14. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following significant transactions with connected and related parties:

(i) Sales of goods

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------------------|------------------|
| Sales of goods to Marketing Resource Group, Inc., a jointly controlled entity | 2,837 | 3,316 |

Sales to Marketing Resource Group, Inc. were conducted in the normal course of business at prices and terms no less favourable than those charged to and contracted with other third party customers of the Group.

(ii) Purchase of services

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| Product development, sales and marketing services provided by Miracles For Fun (USA), Inc. | 508 | 739 |

Mr. Sanders is a director and a beneficial owner of 32% of the total issued share capital of Better Sourcing Worldwide Limited, a non-wholly owned subsidiary of the Group. Mr. Sanders is also the sole owner of Miracles For Fun (USA), Inc.

15. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment at the balance sheet date.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2009, the Group recorded turnover of approximately HK\$50.7 million (2008: HK\$63.0 million), representing a decrease of approximately 20% as compared with the first half of 2008. Loss attributable to equity holders of the Company for the period was approximately HK\$17.8 million (2008: HK\$3.5 million). Basic loss per share for the period was HK0.43 cent (2008: HK0.10 cent). The Board has resolved not to pay any interim dividend for the period (2008: Nil).

For the first half of 2009, the Group engaged in (i) the mining and exploration of coal through Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng") and Tongliao City Heng Yuan Mining Co., Ltd. ("Heng Yuan") and (ii) the design, manufacture and sales of toys and gifts products.

Toys and Gifts Business

During the period, turnover decreased by approximately 20% from approximately HK\$63.0 million for the first half of 2008 to approximately HK\$50.7 million for the first half of 2009. Gross profit margin also decreased from approximately 38.2% for the first half of 2008 to approximately 34.1% for the first half of 2009. The decrease in turnover and gross profit margin is a direct result of the economic downturn caused by the recent global economic crisis. Finance costs has increased by approximately HK\$5.2 million from approximately HK\$7.4 million for the first half of 2008 to approximately HK\$12.6 million for the first half of 2009 as a result of the increase in the interest expenses on the liability component of the convertible notes and the overall increase in borrowings of the Group.

Coal Business

The Group operates 3 coal mines in the Inner Mongolia Autonomous Region ("Inner Mongolia") of the PRC, which are the Guerbanhada Coal Mine, the Huanghuashan Coal Mine and the Bayanhushuo Coalfield. The 3 coal mines have aggregate coal resources of over 570 million tons.

Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia in the PRC and is located 1.5 km away from the railway. Pursuant to an independent technical assessment report issued by SRK Consulting on 31 January 2008, the Huanghuashan Coal Mine has an estimated coal resource of approximately 7.85 million tons of semi-anthracite coal. The current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB270 per ton. It is expected that the Huanghuashan Coal Mine will commence production by the end of 2009.

Bayanhushuo Coalfield is located in Xilinguolemeng of Inner Mongolia in the PRC and is located next to a railway to be opened in 2011. Pursuant to an independent technical assessment report issued by SRK Consulting on 31 January 2008, the Bayanhushuo Coalfield has estimated coal resource of approximately 434.76 million tons of high quality thermal coal. The current at-pit market price of the coal expected to be extracted from the Bayanhushuo Coal Mine is approximately RMB180 per ton.

The Guerbanhada Coal Mine is located in Xilinguolemeng of Inner Mongolia in the PRC and is located 10 km away from the highway and 25km away from the railway. According to an independent technical assessment report issued by SRK Consulting on 30 March 2007, the Guerbanhada Coal Mine has estimated coal resource of 106 million tones of thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. According to a coal resource assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007, the estimated coal resource of the Guerbanhada Coal Mine has increased to 128.86 million tons as a result of the completion of the final stage of exploration. The current at-pit market price of the coal expected to be extracted from the Guerbarhada Coal Mine is approximately RMB160 per ton.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had cash and bank balances of approximately HK\$83.6 million as at the balance sheet date. The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi. The Group had not used any financial instruments for hedging during the period.

The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, approximately 93% of such borrowings bore interest at fixed lending rate. At 30 June 2009, the Group's bank and other borrowings amounted to approximately HK\$78.1 million, out of which approximately 99% was repayable within one year. In addition, the Group has outstanding promissory notes payable of approximately HK\$95.4 million and convertible notes of approximately HK\$241.9 million as at the balance sheet date. These promissory notes and convertible notes were issued in relation to the Group's acquisition of Lucky Dragon Resources Limited in 2008. The debt/equity ratio of the Group calculated as a ratio of total borrowings (including promissory notes and convertible notes) to total equity was approximately 95% as at 30 June 2009. Net current liabilities and net assets at 30 June 2009 was approximately HK\$349.9 million and approximately HK\$435.2 million, respectively. The management is in negotiation with the creditors in relation to an extension of the repayment period of the promissory notes and convertible notes. Further details will be disclosed to the shareholders once an agreement has been reached with these creditors.

At 30 June 2009, certain of the Group's land use rights, buildings and leasehold land and buildings with carrying values of approximately HK\$4.8 million, HK\$11.4 million and HK\$9.2 million, respectively, were pledged to secure general banking facilities granted to the Group. In addition, the Group's mining rights and fixed assets of the Huanghuashan Coal Mine was pledged to secure certain borrowings granted to the Group.

As at 30 June 2009, the Group did not have any contingent liabilities (2008: Nil).

Employment, Training and Development

At 30 June 2009, the Group had a total of 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.

Business Prospects

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 accounted for approximately 70% of 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. Capitalising on a stable and well-established industrial business foundation, we will tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value.

The Huanghuashan Coal Mine is undertaking a capacity expansion program and will commence commercial production during the fourth quarter of 2009. The Guerbanhada Coal Mine will commence the preliminary stage of its mining license application this year and will commence commercial operation approximately one year after the raising of sufficient capital for its development. For the Bayanhushuo Coalfield, the detailed stage of exploration is expected to be completed in 2009. In addition, we will continue to strengthen our toys and gifts business in order to maximise the benefit of our shareholders.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Propects (Continued)

Going forward, the Group will continue to explore other investment opportunities in the energy and natural resources industries that have earning potentials in order to expand its existing operations and to diversify its business. With the committed efforts of the staff and management, we are confident and optimistic on the prospects of the Group.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Code") contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

| Name of Directors | Capacity | Number of Shares | Approximate Shareholding |
|----------------------|--|------------------|--------------------------|
| Hui Kee Fung | Interest of a controlled corporation (<i>note</i>) | 767,500,000 (L) | 18.65% |
| Hui Ki Yau | Not applicable | – | – |
| Hui Hung Tan, Teresa | Not applicable | – | – |

(L) Long Position

note: The shares are held by Legend Win Profits Limited ("Legend Win"), a company incorporated in the British Virgin Islands. The issued share capital of Legend Win is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% 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, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

Save as disclosed above, as at 30 June 2009, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.



DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Share options" in note 14 of the unaudited condensed consolidated interim financial statements, at no time during the six months ended 30 June 2009 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the latest practicable date prior to the issue of this interim report, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

| Name of shareholder | Number of Shares or underlying shares | Beneficial owner | Capacity | | Approximate shareholding |
|---|---------------------------------------|------------------|------------------------------------|--------------------------------------|--------------------------|
| | | | Interest of controlled corporation | Interest of child under 18 or spouse | |
| Legend Win Profits Limited (Note 1) | 767,500,000 (L) | 767,500,000 | – | – | 18.65% |
| Yu Won Kong, Dennis (Note 2) | 842,449,764 (L) | 465,000,000 | 362,949,764 | 14,500,000 | 20.47% |
| Ho Siu Lan, Sandy (Note 3) | 842,449,764 (L) | 14,500,000 | – | 827,949,764 | 20.47% |
| Kau Man Wai, Leslie (Note 2) | 624,819,764 (L) | 261,870,000 | 362,949,764 | – | 15.18% |
| Gold Dynasty Investments Limited (Note 4) | 362,949,764 (L) | 362,949,764 | – | – | 8.82% |
| Top Advance Group Limited (Notes 2 & 4) | 362,949,764 (L) | – | 362,949,764 | – | 8.82% |
| Chung Chi Shing (Note 4) | 544,269,764 (L) | 181,320,000 | 362,949,764 | – | 13.22% |
| Ruan Yuan | 530,000,000 (L) | 530,000,000 | – | – | 12.88% |

L: Long Position

notes:

1. Details of Legend Win are disclosed in the section headed "Directors' Interest in Shares" of this interim report.
2. 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.
3. Ho Siu Lan, Sandy is the spouse of Yu Wong Kong, Dennis.
4. 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 Mr. Chung Chi Shing; and (ii) 45% by Top Advance Group Limited.



SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed herein, the Directors are not aware of any person who was, as at the Latest Practicable Date prior to the issue of this interim report, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has substantially complied with the Code of Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules, throughout the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors 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 "Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Code during the period.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Mr. Peng Guanghui, Mr. Kung King Ching, Conrad and Mr. Tang Rongzu, the independent non-executive directors of the Company. The Group's unaudited interim report for the period has been reviewed by the Audit Committee, who are of the opinion that such report complies with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

By Order of the Board
Kiu Hung Energy Holdings Limited
HUI Kee Fung
Chairman

Hong Kong, 10 September 2009



香港沙田火炭坳背灣街61-63號盈力工業中心14樓

14/F Yale Industrial Centre, 61-63 Au Pui Wan Street, Fotan, Shatin, Hong Kong.

Email 電郵 : IR@kiuhung.com

Website 網址 : <http://www.kiuhung.com>