

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Kiu Hung International Holdings Limited (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



**僑雄國際控股有限公司**

**Kiu Hung International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 381)

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO ACQUISITION OF COAL BUSINESS –  
ACQUISITION OF ENTIRE EQUITY INTERESTS IN MINGRUNFENG  
INVOLVING ISSUE OF NEW SHARES**

**Financial adviser to Kiu Hung International Holdings Limited**



**KINGSTON CORPORATE FINANCE LIMITED**

---

A notice convening an extraordinary general meeting of the Company to be held at the Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 16 April 2007 at 2:30 p.m. is set out on pages 44 to 46 of this circular. If you are not able to attend and/or vote at the meeting, you are strongly urged to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

---

# CONTENTS

---

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b>	
Introduction .....	7
The Agreements	
– Capital Contribution Agreement .....	9
– New Acquisition Agreements .....	13
– 2nd Acquisition Agreement .....	17
Basis of considerations for the New Acquisitions and 2nd Acquisition .....	19
– Loan Facility Agreement .....	20
– Guarantee Agreement .....	21
– Cancellation Agreement .....	22
Reasons for entering into the Agreements .....	22
Information on Subject Entities .....	24
Information on the exploration works .....	30
Shareholding structure of the Subject Entities .....	31
Shareholding structure of the Company .....	32
Financial effects of the Transactions .....	33
Risks associated with the acquisition of Mingrunfeng .....	34
Management discussion and analysis of the performance of Subject Entities .....	35
Business review on the Group .....	40
Financial and trading prospects of the Enlarged Group .....	41
General .....	42
Implications under the Listing Rules .....	42
EGM .....	42
Recommendations .....	43
Additional information .....	43
<b>Appendix I – Financial information on the Group</b> .....	I-1
<b>Appendix II – Accountants’ report on Jumplex, First Choice, Wise House and Mingrunfeng</b> .....	II-1
<b>Appendix III – Unaudited pro forma financial information of the Enlarged Group</b> .....	III-1
<b>Appendix IV – Property valuation on the Enlarged Group</b> .....	IV-1
<b>Appendix V – Technical report</b> .....	V-1
<b>Appendix VI – General information</b> .....	VI-1
<b>Notice of the EGM</b> .....	44

---

## DEFINITIONS

---

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“1st Acquisition”	the acquisition of an aggregate of 19% equity interests in Mingrunfeng by Bright Asset from the Original Shareholders pursuant to the 1st Acquisition Agreement
“1st Acquisition Agreement”	the agreement dated 2 September 2006 entered into between Bright Asset and the Original Shareholders in respect of the acquisition of an aggregate of 19% equity interests in Mingrunfeng by Bright Asset from the Original Shareholders, which was cancelled pursuant to the Cancellation Agreement
“2nd Acquisition”	the acquisition of an aggregate of 16% equity interests in Mingrunfeng by Bright Asset from Mr. Yang pursuant to the 2nd Acquisition Agreement
“2nd Acquisition Agreement”	the agreement dated 16 January 2007 entered into between Bright Asset and Mr. Yang in respect of the 2nd Acquisition
“Agreements”	Capital Contribution Agreement, Deposit Agreement, New Acquisition Agreements, 2nd Acquisition Agreement, Loan Facility Agreement and Guarantee Agreement
“associates”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bright Asset”	Bright Asset Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“Cancellation Agreement”	the cancellation agreement dated 16 January 2007 entered into between Bright Asset and the Original Shareholders in relation to the cancellation of the 1st Acquisition
“Cancellation Agreement”	the agreement dated 16 January 2007 entered into between Bright Asset and the Original Shareholders in relation to the cancellation of the 1st Acquisition Agreement
“Capital Contribution”	contribution of RMB20 million (equivalent to approximately HK\$20 million) to the registered capital of Mingrunfeng by Bright Asset in return for 51% equity interests in Mingrunfeng subject to and upon the terms and conditions of the Capital Contribution Agreement
“Capital Contribution Agreement”	the agreement dated 2 September 2006 entered into between Bright Asset and the Original Shareholders in respect of the Capital Contribution

---

## DEFINITIONS

---

“Classification For Resources”	the Classification for Resources/Reserves of Solid Fuels and Mineral Commodities (固體礦產資源／儲量分類) issued by State Bureau of Quality and Technical Supervision (國家質量技術監督局)
“Co-Operation Agreement”	the co-operation agreement dated 15 June 2006 entered into between Mingrunfeng and Guoxin in respect of the exploration of the Coal Mine in Xilinguolemeng (錫林郭勒盟) of the Inner Mongolia Autonomous Region of the PRC with an area of approximately 227.80 km <sup>2</sup> and the transfer of the exploration rights of the Coal Mine from Guoxin to Mingrunfeng
“Coal Mine”	the Guerbanhada Coal Mine (古爾班哈達煤礦點) <sup>#</sup> located in Xilinguolemeng (錫林郭勒盟) of the Inner Mongolia Autonomous Region of the PRC
“Company”	Kiu Hung International Holdings Limited, a company incorporated in the Cayman Islands and the issued Shares of which are listed on the Stock Exchange
“Completion Date”	the date falling 30 days after the fulfillment of the conditions of the New Acquisition Agreements (or such later date as the relevant vendors to the New Acquisition Agreements and Bright Asset may agree)
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Consideration Share(s)”	new Share(s) to be issued by the Company as the consideration for the 1st Acquisition, 2nd Acquisition and New Acquisitions, as the case may be
“Deposit Agreement”	the agreement dated 2 September 2006 entered into, among other parties, between Bright Asset, Bright Asset’s nominee and the Original Shareholders in respect of the payment of deposit for the Capital Contribution
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened at the Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 16 April 2007 at 2:30 p.m. for, inter alia, approving the Agreements and the transactions contemplated thereunder
“Enlarged Group”	the Group which is assumed that it has acquired the entire equity interests in Jumplex, First Choice, Wise House and Mingrunfeng after completion of the Capital Contribution, New Acquisitions and 2nd Acquisition
“Exploration License”	the Exploration License for Mineral Resources (礦產資源勘查許可證), being the legal certificate for the entire exploration rights of the Coal Mine

---

## DEFINITIONS

---

“First Announcement”	the announcement of the Company dated 26 September 2006 in relation to, among other things, the Capital Contribution Agreement, Deposit Agreement, Loan facility Agreement and Guarantee Agreement
“First Choice”	First Choice Resources Limited, a company incorporated in the British Virgin Islands, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“First Choice Acquisition”	the acquisition of the entire issued share capital of First Choice by Bright Asset from Ms. Lee pursuant to the First Choice Acquisition Agreement
“First Choice Acquisition Agreement”	the agreement dated 16 January 2007 entered into between Bright Asset and Ms. Lee in relation to the First Choice Acquisition
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the agreement dated 22 September 2006 entered into between Bright Asset and the Original Shareholders in respect of the provision of guarantees by Bright Asset and the Original Shareholders for any future loan facility which may be secured by Mingrunfeng
“Guoxin”	Xilinguole Guoxin Mines Co., Ltd. (錫林郭勒國鑫礦業有限公司) <sup>#</sup> , a company established in the PRC, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jumplex”	Jumplex Investments Limited, a company incorporated in the British Virgin Islands, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Jumplex Acquisition”	the acquisition of the entire issued share capital of Jumplex by Bright Asset from Mr. Choi pursuant to the Jumplex Acquisition Agreement
“Jumplex Acquisition Agreement”	the agreement dated 16 January 2007 entered into between Bright Asset and Mr. Choi in relation to the Jumplex Acquisition
“Latest Practicable Date”	27 March 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

---

## DEFINITIONS

---

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility”	the revolving loan facility of not exceeding RMB40 million to be provided by Bright Asset to Mingrunfeng subject to and upon the terms and conditions of the Loan Facility Agreement
“Loan Facility Agreement”	the agreement dated 22 September 2006 entered into between Bright Asset as lender, and Mingrunfeng as borrower, in respect of the Loan Facility
“Longwang”	Inner Mongolia Longwang Geological Exploration Co., Ltd. (內蒙古龍旺地質勘探有限責任公司) <sup>#</sup> , a company established in the PRC on 12 May 2005 and is a holder of the Certificate of Qualification for Geological Exploration (地質勘查資質證書) <sup>#</sup> issued by the Ministry of Land and Resources of the PRC, being the professional geological exploration company in charge of the exploration works of the Coal Mine, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Mingrunfeng”	Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司) <sup>#</sup> , a company established in the PRC, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Mr. Chan”	Mr. Chan Aik Huat, Simon, the beneficial owner of 63% of the entire issued share capital of Wise House, and a third party independent of the Company and its connected persons
“Mr. Choi”	Mr. Choi Pui Sze, the sole beneficial owner of the entire issued share capital and sole director of, Jumphex as at the Latest Practicable Date, and a third party independent of the Company and its connected persons,
“Mr. Chung”	Mr. Chung Cheuk Wah, Sammy, the beneficial owner of 37% of the entire issued share capital and the sole director of, Wise House as at the Latest Practicable Date, and a third party independent of the Company and its connected persons
“Mr. Yang”	Mr. Yang Runzhi, the beneficial owner of 32.65% equity interests in Mingrunfeng as at the Latest Practicable Date, and a third party independent of the Company and its connected persons
“Ms. Lee”	Ms. Lee Sai Yin, Jeanne, the sole beneficial owner of the entire issued share capital and sole director of, First Choice as at the Latest Practicable Date, and a third party independent of the Company and its connected persons

---

## DEFINITIONS

---

“New Acquisition Agreements”	the Jumplex Acquisition Agreement, First Choice Acquisition Agreement and Wise House Acquisition Agreement
“New Acquisitions”	the Jumplex Acquisition, First Choice Acquisition and Wise House Acquisition
“Open Offer”	open offer of Shares conducted by the Company in August 2006
“Original Shareholders”	Mr. Yang, Jumplex, First Choice and Wise House, being the entire shareholders of Mingrunfeng prior to the completion of the Capital Contribution Agreement
“PRC”	the People’s Republic of China which for the purpose of this circular excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Opinion”	the PRC legal opinion and the memorandum issued by Guantao Law Firm (觀韜律師事務所) on 2 and 20 September 2006 respectively
“Revised Certificate”	the Certificate of Approval for Establishment of Enterprises with Foreign Investment (外商投資企業批准證書) of Mingrunfeng being revised for the change in shareholding structure of Mingrunfeng as a result of the entering into of the Capital Contribution Agreement to be granted by the Beijing Municipal Bureau of Commerce
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holders of the Share(s)
“SRK Consulting”	Steffen Robertson and Kirsten (Australasia) Pty. Ltd., an independent mining and geological consultant, being the technical adviser appointed by the Company to compile a technical report for the Coal Mine, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Entities”	Jumplex, First Choice, Wise House and Mingrunfeng
“Transactions”	the transactions contemplated under the Agreements

---

## DEFINITIONS

---

“Wise House”	Wise House Limited, a company incorporated in the British Virgin Islands, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons
“Wise House Acquisition”	the acquisition of the entire issued share capital of Wise House by Bright Asset from Mr. Chan and Mr. Chung pursuant to the Wise House Acquisition Agreement
“Wise House Acquisition Agreement”	the agreement dated 16 January 2007 entered into among Bright Asset, Mr. Chan and Mr. Chung in relation to the Wise House Acquisition
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“km <sup>2</sup> ”	square kilometre(s)
“%”	per cent.

Exchange rate used in this circular:

- *Between Hong Kong dollars and Renminbi: HK\$1 = RMB1; and*
- *Between United States dollars and Hong Kong dollars: US\$1 = HK\$7.7.*

# *denotes English transliteration of Chinese words and is provided for identification purposes only.*





僑雄國際控股有限公司

**Kiu Hung International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 381)

*Executive Directors:*

Mr. Hui Kee Fung

Mr. Hui Ki Yau

Madam Hui Hung Tan, Teresa

*Independent non-executive Directors:*

Mr. Peng Guanghui

Mr. Kung King Ching, Conrad

Mr. Tang Rongzu

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Head office and principal place  
of business in Hong Kong:*

14th Floor

Yale Industrial Centre

61-63 Au Pui Wan Street

Fo Tan, Shatin

Hong Kong

30 March 2007

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO ACQUISITION OF COAL BUSINESS –  
ACQUISITION OF ENTIRE EQUITY INTERESTS IN MINGRUNFENG  
INVOLVING ISSUE OF NEW SHARES**

**INTRODUCTION**

On 27 September 2006, the Board announced that Bright Asset, an indirect wholly-owned subsidiary of the Company, had entered into five agreements (i.e. Capital Contribution Agreement, Deposit Agreement, 1st Acquisition Agreement, Loan Facility Agreement and Guarantee Agreement) on 2 September 2006 and 22 September 2006.

---

## LETTER FROM THE BOARD

---

### **Capital Contribution Agreement, Deposit Agreement and 1st Acquisition Agreement dated 2 September 2006**

On 2 September 2006, Bright Asset and the Original Shareholders entered into the Capital Contribution Agreement, pursuant to which Bright Asset will contribute RMB20 million (equivalent to approximately HK\$20 million) to the registered capital of Mingrunfeng in return for 51% equity interests in Mingrunfeng. The Deposit Agreement relating to the payment of deposit for the Capital Contribution was entered into on the same date.

In addition, Bright Asset and the Original Shareholders entered into the 1st Acquisition Agreement, pursuant to which Bright Asset will acquire an additional 19% equity interests in Mingrunfeng from the Original Shareholders within 60 days after Mingrunfeng has obtained the exploration rights of the Coal Mine at a consideration of HK\$42.9 million to be satisfied by the allotment and issue of an aggregate of 130,000,000 Consideration Shares at an issue price of HK\$0.33 per Consideration Share.

The 1st Acquisition Agreement was cancelled on 16 January 2007 pursuant to the Cancellation Agreement. Please refer to the First Announcement for details of the 1st Acquisition Agreement.

### **Loan Facility Agreement and Guarantee Agreement dated 22 September 2006**

On 22 September 2006, Bright Asset entered into the Loan Facility Agreement and the Guarantee Agreement.

Pursuant to the Loan Facility Agreement, Bright Asset as lender, has agreed to provide, and Mingrunfeng as borrower, has agreed to accept, a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK\$40 million) subject to the terms and conditions of the Loan Facility Agreement.

Pursuant to the Guarantee Agreement, after obtaining approval of the Capital Contribution Agreement from the relevant government authorities and the completion of the necessary procedures to change the particulars in the business license of Mingrunfeng, Bright Asset and the Original Shareholders shall provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time and in the form that the lenders of such loan facility may accept should the lenders of such loan facility request for guarantee being provided by the shareholders of Mingrunfeng.

### **New Acquisition Agreements, 2nd Acquisition Agreement and Cancellation Agreement dated 16 January 2007**

Subsequent to the entering into of the agreements above as disclosed in the First Announcement, Bright Asset and the parties involved entered into further negotiation in respect of the acquisition of the remaining equity interests in Mingrunfeng of which the Directors consider to be in the interests of the Company and the Shareholders as a whole. After arm's length negotiation, on 16 January 2007, Bright Asset further entered into i) the Cancellation Agreement in relation to the cancellation of the 1st Acquisition Agreement; ii) the New Acquisition Agreements in relation to the acquisition of the entire issued share capitals of Jumplex, First Choice and Wise House, which held 12.24%, 16.33% and 38.78% equity interests in Mingrunfeng respectively as at the Latest Practicable Date; and iii) the 2nd Acquisition Agreement in relation to the acquisition of an aggregate of 16% equity interests in Mingrunfeng (which represents the equity interests of Mr. Yang in Mingrunfeng upon completion of the Capital Contribution) from Mr. Yang.

---

## LETTER FROM THE BOARD

---

Upon completion of the Capital Contribution Agreement, New Acquisition Agreements and 2nd Acquisition Agreement, the Company will be indirectly interested in the entire equity interests in Mingrunfeng.

The Transactions constitute a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules and will result in the diversion to exploration for natural resources of 10% or more of the consolidated total assets of the Group. Therefore, the Transactions are subject to approval by Shareholders at a general meeting under Rule 14.49 and Rule 18.07(2) of the Listing Rules.

An extraordinary general meeting will be convened and held to consider and, if thought fit, pass the resolutions to approve the Agreement and the Transactions.

The purpose of this circular is to give you, among other things, (i) further details of the Transactions; (ii) other disclosures in connection with the Transactions required pursuant to the Listing Rules in respect of a very substantial acquisition; (iii) other disclosures as required under Rule 18.09 of the Listing Rules; and (iv) the notice of the EGM.

### THE AGREEMENTS

#### CAPITAL CONTRIBUTION AGREEMENT

**Date of the Capital Contribution Agreement:** 2 September 2006

#### **Parties to the Capital Contribution Agreement**

New investor of Mingrunfeng: Bright Asset

Original shareholders of Mingrunfeng: Original Shareholders

#### *Note:*

According to the PRC Legal Opinion, as requested by the departments approving the establishment of enterprises with foreign investment (外商投資企業審批部門)\*, the agreements in relation to the contribution of capital of enterprises with foreign investment should be jointly signed by the original shareholder(s) of such companies and the new investor(s). Accordingly, the parties to the Capital Contribution Agreement are Bright Asset (being the new investor of Mingrunfeng) and the Original Shareholders (being the original shareholders of Mingrunfeng).

#### **Capital Contribution**

All parties to the Capital Contribution Agreement have agreed to Bright Asset's contribution of RMB20 million (equivalent to approximately HK\$20 million) to the registered capital of Mingrunfeng. Of the RMB20 million, i) RMB0.52 million (equivalent to approximately HK\$0.52 million) shall be paid to increase the registered capital of Mingrunfeng for a return of 51% of the equity interests in Mingrunfeng as enlarged by the Capital Contribution; and ii) the balance of RMB19.48 million (equivalent to approximately HK\$19.48 million) shall be credited to the capital reserve account of Mingrunfeng.

---

## LETTER FROM THE BOARD

---

Upon completion of the Capital Contribution, the registered capital of Mingrunfeng shall be increased by RMB0.52 million (equivalent to approximately HK\$0.52 million) from RMB0.50 million (equivalent to approximately HK\$0.50 million) as at the Latest Practicable Date to RMB1.02 million (equivalent to approximately HK\$1.02 million). Upon completion of the Capital Contribution, Mingrunfeng will become a 51%-owned subsidiary of the Company and the results of Mingrunfeng will be consolidated into the consolidated financial statements of the Group.

### **Consideration**

The consideration for the Capital Contribution is RMB20 million (equivalent to approximately HK\$20 million) and is payable in cash and shall be payable in equivalent foreign currency to Mingrunfeng within five business days upon obtaining approval from the Beijing Municipal Bureau of Commerce in respect of the Capital Contribution Agreement or other documents incidental to the Capital Contribution Agreement including the joint venture contract required by the Beijing Municipal Bureau of Commerce which shall be signed by Bright Asset and the Original Shareholders relating to Mingrunfeng upon completion of the Capital Contribution, the articles of association of Mingrunfeng and other related documents (the date of issuing of the Revised Certificate shall be treated as the date of approval).

Pursuant to the Capital Contribution Agreement, RMB15 million (equivalent to approximately HK\$15 million) shall be payable in cash to Mingrunfeng as deposit within ten business days upon the signing of the Capital Contribution Agreement. Such deposit has been paid on 15 September 2006. Such deposit of RMB15 million (equivalent to approximately HK\$15 million) shall be refunded to Bright Asset or its nominees without interest within five business days upon payment of the consideration of RMB20 million to Mingrunfeng. The advance payment of the deposit as earnest money is agreed between Bright Asset and the Original Shareholders after arm's length negotiation.

According to the PRC Legal Opinion, under the PRC regulations, considerations for foreign investments in PRC companies shall be remitted in foreign currency from abroad or contributed from legally generated domestic income. Accordingly, the Capital Contribution Agreement was entered into with a payment arrangement such that the deposit and the consideration are to be paid separately.

Pursuant to the Capital Contribution Agreement and the Deposit Agreement, the Original Shareholders irrevocably guarantee that in the event Mingrunfeng defaults in refunding the deposit of RMB15 million, such deposit shall be repaid by the Original Shareholders to Bright Asset or its nominees in proportion to the respective shareholdings of the Original Shareholders in Mingrunfeng as before completion of the Capital Contribution. The entering into of the Deposit Agreement is to provide further assurance on the refunding arrangement set out in the Capital Contribution Agreement. In addition, the Directors consider the chance for Mingrunfeng in not refunding the deposit after making the Capital Contribution will not be significant as Bright Asset will control the majority of the board of directors of Mingrunfeng upon completion of the Capital Contribution.

---

## LETTER FROM THE BOARD

---

The consideration for the Capital Contribution was arrived at after arm's length negotiations between the parties to the Capital Contribution Agreement taking into account, among other things, i) the net asset value of Mingrunfeng of approximately RMB0.2 million (equivalent to approximately HK\$0.2 million) as at 31 December 2005; ii) the preliminary estimated reserves of the Coal Mine of approximately 109.35 million tons made by Longwang before entering into the Capital Contribution Agreement and the preliminary estimated value of the exploration rights of the Coal Mine of approximately RMB164.0 million if reference is made to the minimum concession price of the exploration and exploitation rights of coal mine of RMB1.5 per ton of coal set by the People's Government of Inner Mongolia Autonomous Region; and iii) the reconnaissance stage of the exploration works in respect of the Coal Mine has been completed. Description of stages of the exploration works in respect of the Coal Mine are set out in the section headed "Information on the exploration works" below.

The Capital Contribution will be financed by the net proceeds of the Open Offer.

### **Conditions precedent of the Capital Contribution Agreement**

Completion of the Capital Contribution is subject to the satisfaction of the following conditions:

- (a) the obtaining of the Revised Certificate by Mingrunfeng and the completion of any necessary procedure to the change of particulars in the business license of Mingrunfeng;
- (b) the Capital Contribution will not be in breach of rules and requirements of any relevant government authorities;
- (c) from the date of the Capital Contribution Agreement until the contribution of capital in accordance with the Capital Contribution Agreement, there being no material changes in the circumstances, facts or situations of the Original Shareholders which would cause or might cause material breach of the warranties and obligations of the relevant parties under the Capital Contribution Agreement;
- (d) if required by the Stock Exchange or other regulatory authorities, the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Capital Contribution Agreement and the transactions contemplated thereunder;
- (e) the obtaining of a PRC legal opinion in form and substance satisfactory to Bright Asset;
- (f) Bright Asset being satisfied with the results of the due diligence exercise to be conducted on the assets, liabilities, operations and affairs of Mingrunfeng; and
- (g) the obtaining of approval from the Beijing Municipal Bureau of Commerce in respect of the Capital Contribution Agreement or other documents incidental to the Capital Contribution Agreement including the joint venture contract required by the Beijing Municipal Bureau of Commerce which shall be signed by Bright Asset and the Original Shareholders relating to Mingrunfeng upon completion of the Capital Contribution, the articles of association of Mingrunfeng and other related documents (the date of the issuing of the Revised Certificate shall be treated as the date of approval).

---

## LETTER FROM THE BOARD

---

If any of the above conditions cannot be fulfilled (save for those waived by the relevant parties) before 30 September 2007 (as extended from the original date of 1 March 2007 as stated in the First Announcement pursuant to an supplemental agreement entered into between the parties) (or any other date the parties to the Capital Contribution Agreement may agree from time to time), the Capital Contribution Agreement shall be terminated. Accordingly, pursuant to the Capital Contribution Agreement and/or the Deposit Agreement, i) Mingrunfeng shall refund the deposit of RMB15 million (equivalent to approximately HK\$15 million) to Bright Asset or its nominees without interest within five business days upon receiving the written notification from Bright Asset that the conditions to the Capital Contribution Agreement have not been fulfilled; ii) an amount of approximately RMB5 million (equivalent to approximately HK\$5 million), being among other things, the expenses already incurred in conjunction with the Capital Contribution and payable by Mingrunfeng, shall be borne by the Original Shareholders and Bright Asset in proportion to their respective shareholdings in Mingrunfeng as if the Capital Contribution has been completed; and iii) the Capital Contribution shall not proceed. Pursuant to the Capital Contribution Agreement, if the Capital Contribution Agreement is terminated, save for approximately RMB5 million for expenses incurred by Mingrunfeng as mentioned in (ii) above, Bright Asset shall not be responsible for any other expenses incurred by Mingrunfeng.

### **Other terms**

- Bright Asset and the Original Shareholders will share the profit of Mingrunfeng in proportion to their respective equity interests in Mingrunfeng from time to time.
- The board of directors of Mingrunfeng shall comprise three members, of which two of the members shall be nominated by Bright Asset and the remaining one member shall be nominated by the Original Shareholders.
- The party who breaches the terms of the Capital Contribution Agreement and leads to the incapability of executing the Capital Contribution Agreement shall pay a compensation equivalent to 20% of the deposit of RMB15 million (equivalent to approximately HK\$15 million), being RMB3 million (equivalent to approximately HK\$3 million), to the parties not in breach of the Capital Contribution Agreement in proportion to their respective equity interests in Mingrunfeng as if the Capital Contribution has been completed.

---

## LETTER FROM THE BOARD

---

### NEW ACQUISITION AGREEMENTS

#### (1) JUMPLEX ACQUISITION AGREEMENT

**Date of the Jumplex Acquisition Agreement:** 16 January 2007

**Parties to the Jumplex Acquisition Agreement**

Purchaser: Bright Asset

Vendor: Mr. Choi

**Subject asset to be acquired**

Pursuant to the Jumplex Acquisition Agreement, Bright Asset has agreed to acquire, and Mr. Choi has agreed to dispose of, the entire issued share capital of Jumplex, being one issued share in the share capital of Jumplex, and a shareholder's loan owed by Jumplex to Mr. Choi on the Completion Date, which amounted to HK\$77,995 as at the date of the Jumplex Acquisition Agreement. Jumplex held 12.24% equity interests in Mingrunfeng as at the Latest Practicable Date.

Upon completion of the Jumplex Acquisition, Jumplex will become a wholly-owned subsidiary of the Company. After taking into account the effect of the Capital Contribution, 6% equity interests in Mingrunfeng held by Jumplex will be indirectly owned by the Company upon completion of the Jumplex Acquisition.

**Consideration for Jumplex Acquisition**

The consideration for the Jumplex Acquisition is approximately HK\$14.6 million which shall be satisfied by the allotment and issue of 44,350,175 Consideration Shares at an issue price of HK\$0.33 per Consideration Share. There is no restriction on the subsequent sale of the Consideration Shares by Mr. Choi and the issue price of HK\$0.33 per Consideration Share is not subject to any adjustment. The 44,350,175 Consideration Shares represent approximately 1.48% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 1.37% and approximately 1.32% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares under i) the New Acquisitions; and ii) the New Acquisitions and 2nd Acquisition respectively.

---

## LETTER FROM THE BOARD

---

### (2) FIRST CHOICE ACQUISITION AGREEMENT

**Date of the First Choice Acquisition Agreement:** 16 January 2007

#### **Parties to the First Choice Acquisition Agreement**

Purchaser: Bright Asset

Vendor: Ms. Lee

#### **Subject asset to be acquired**

Pursuant to the First Choice Acquisition Agreement, Bright Asset has agreed to acquire, and Ms. Lee has agreed to dispose of, the entire issued share capital of First Choice, being one issued share in the share capital of First Choice, and a shareholder's loan owed by First Choice to Ms. Lee on the Completion Date, which amounted to HK\$748,022 as at the date of the First Choice Acquisition Agreement. First Choice held 16.33% equity interests in Mingrunfeng as at the Latest Practicable Date.

Upon completion of the First Choice Acquisition, First Choice will become a wholly-owned subsidiary of the Company. After taking in to account the effect of the Capital Contribution, 8% equity interests in Mingrunfeng held by First Choice will be indirectly owned by the Company upon completion of the First Choice Acquisition.

#### **Consideration for First Choice Acquisition**

The consideration for the First Choice Acquisition is approximately HK\$19.5 million which shall be satisfied by the allotment and issue of 59,103,859 Consideration Shares at an issue price of HK\$0.33 per Consideration Share. There is no restriction on the subsequent sale of the Consideration Shares by Ms. Lee and the issue price of HK\$0.33 per Consideration Share is not subject to any adjustment. The 59,103,859 Consideration Shares represent approximately 1.98% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 1.82% and approximately 1.76% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares under i) the New Acquisitions; and ii) the New Acquisitions and 2nd Acquisition respectively.

### (3) WISE HOUSE ACQUISITION AGREEMENT

**Date of the Wise House Acquisition Agreement:** 16 January 2007

#### **Parties to the Wise House Acquisition Agreement**

Purchaser: Bright Asset

Vendors: Mr. Chan and Mr. Chung



---

## LETTER FROM THE BOARD

---

### **Subject asset to be acquired**

Pursuant to the Wise House Acquisition Agreement, Bright Asset has agreed to acquire, and Mr. Chan and Mr. Chung have agreed to dispose of, the entire issued share capital of Wise House, being 36,000 issued shares in the share capital of Wise House. Wise House held 38.78% equity interests in Mingrunfeng as at the Latest Practicable Date.

Upon completion of the Wise House Acquisition, Wise House will become a wholly-owned subsidiary of the Company. After taking into account the effect of the Capital Contribution, 19% equity interests in Mingrunfeng held by Wise House will be indirectly owned by the Company upon completion of the Wise House Acquisition.

### **Consideration for Wise House Acquisition**

The consideration for the Wise House Acquisition is approximately HK\$46.3 million which shall be satisfied by the allotment and issue of an aggregate of 140,338,246 Consideration Shares at an issue price of HK\$0.33 per Consideration Share. There is no restriction on the subsequent sale of the Consideration Shares by Mr. Chan and Mr. Chung and the issue price of HK\$0.33 per Consideration Share is not subject to any adjustment. The 140,338,246 Consideration Shares represent approximately 4.68% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 4.33% and approximately 4.18% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares under i) the New Acquisitions; and ii) the New Acquisitions and 2nd Acquisition respectively.

### **Conditions of the New Acquisition Agreements**

Completion of the New Acquisitions is subject to the satisfaction of the following conditions:

- (a) Bright Asset being satisfied with the results of the due diligence review of Jumplex, First Choice and Wise House to be conducted in accordance with the terms of the New Acquisition Agreements;
- (b) the warranties given by the vendors under the New Acquisition Agreements remaining true and accurate in all respects;
- (c) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares to be allotted and issued under the New Acquisition Agreements;
- (d) the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve i) the New Acquisition Agreements and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares; ii) the Loan Facility Agreement and the transactions contemplated thereunder; and iii) the Guarantee Agreement and the transactions contemplated thereunder;

---

## LETTER FROM THE BOARD

---

- (e) the Capital Contribution Agreement becoming unconditional (save for the condition of obtaining approval from the relevant PRC authorities in respect of the Capital Contribution Agreement or other documents incidental to the Capital Contribution Agreement including the joint venture contract and the articles of association of Mingrunfeng);
- (f) the obtaining of the Exploration License by Mingrunfeng (which shall either be unconditional or subject to such conditions found reasonably satisfactory by Bright Asset);
- (g) the cancellation of the 1st Acquisition Agreement; and
- (h) (i) the First Choice Acquisition Agreement and the Wise House Acquisition Agreement becoming unconditional for the Jumplex Acquisition Agreement; (ii) the Jumplex Acquisition Agreement and the Wise House Acquisition Agreement becoming unconditional for the First Choice Acquisition Agreement; and (iii) the Jumplex Acquisition Agreement and the First Choice Acquisition Agreement becoming unconditional for the Wise House Acquisition Agreement.

Bright Asset may at any time by notice in writing waive the conditions in paragraphs (a) and (b) as set out above. In the event that the conditions of the New Acquisition Agreements are not satisfied or waived by 30 September 2007 (or such other date as may be agreed between the relevant vendors and Bright Asset in writing), the New Acquisition Agreements shall cease and determine and thereafter neither party thereto shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

### **Other terms**

- In the event that all the conditions of the New Acquisition Agreements having been fulfilled, the party which defaults to complete the Jumplex Acquisition, the First Choice Acquisition and the Wise House Acquisition shall pay compensation of HK\$370,000, HK\$490,000 and HK\$1,160,000 respectively to the respective counter party(ies). The receipt of such compensation shall not prevent the other party from taking actions to enforce specific performance or any other non-monetary rights and remedies against the party in default.
- After the completion of the New Acquisition Agreements and up to 30 April 2008, the aggregate amount of liability of i) Mr. Choi; ii) Ms. Lee; and iii) Mr. Chan and Mr. Chung for all claims under the warranties given by the vendors under the New Acquisition Agreements shall not exceed the aggregate amount of consideration to be received by the vendors, being approximately i) HK\$14.6 million; ii) HK\$19.5 million; and iii) HK\$46.3 million respectively.
- Pursuant to the terms of the First Choice Acquisition Agreement, Bright Asset has undertaken Ms. Lee to procure First Choice to pay to Ms. Lee an amount of approximately HK\$619,000 upon recovery of a third party loan due to First Choice.

---

## LETTER FROM THE BOARD

---

Such loan was provided by First Choice to a third party and was interest free, unsecured and due on 31 December 2002. As at the Latest Practicable Date, First Choice has received the entire outstanding amount of such loan from the borrower and has repaid the entire amount to Ms. Lee. The consideration for the First Choice Acquisition has not taken into account of such loan.

### **Completion of the New Acquisition Agreements**

Upon compliance with or fulfillment of all the conditions of the New Acquisition Agreements, completion of the New Acquisitions shall take place on or before the Completion Date.

### **2ND ACQUISITION AGREEMENT**

**Date of the 2nd Acquisition Agreement:** 16 January 2007

#### **Parties to the 2nd Acquisition Agreement**

**Purchaser:** Bright Asset

**Vendor:** Mr. Yang

#### **Subject asset to be acquired**

Pursuant to the 2nd Acquisition Agreement, Bright Asset has agreed to acquire, and Mr. Yang has agreed to dispose of, the 16% equity interests in Mingrunfeng (which represents the shareholding of Mr. Yang in Mingrunfeng upon completion of the Capital Contribution) within 30 days after i) Mingrunfeng has obtained the Exploration License, being the legal certificate for the entire exploration rights of the Coal Mine, pursuant to the terms of the Co-Operation Agreement; and ii) the Capital Contribution Agreement has been approved by the relevant government authorities.

Upon completion of the New Acquisitions and the 2nd Acquisition and taking into account the 51% equity interests of Mingrunfeng to be acquired by Bright Asset under the Capital Contribution, Mingrunfeng will become an indirect wholly owned subsidiary of the Company.

#### **Consideration for the 2nd Acquisition**

The consideration for the 2nd Acquisition is approximately HK\$39.0 million which shall be satisfied by the allotment and issue of an aggregate of 118,207,720 Consideration Shares at an issue price of HK\$0.33 per Consideration Share. There is no restriction on the subsequent sale of the Consideration Shares by Mr. Yang and the issue price of HK\$0.33 per Consideration Share is not subject to any adjustment. The 118,207,720 Consideration Shares represent approximately 3.95% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 3.80% and approximately 3.52% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares under i) the 2nd Acquisition and ii) the New Acquisitions and 2nd Acquisition respectively.

---

## LETTER FROM THE BOARD

---

### Conditions of the 2nd Acquisition Agreement

The 2nd Acquisition Agreement shall become effective subject to the satisfaction of the following conditions:

- (a) the parties to the 2nd Acquisition Agreement fulfill their obligations under the Capital Contribution Agreement and the Capital Contribution Agreement having been approved by the relevant government authorities;
- (b) the 2nd Acquisition will not be in breach of rules and requirements of any relevant government authorities;
- (c) there being no material changes in the circumstances, facts or situations of Mr. Yang and Bright Asset which would cause or might cause material breach of the warranties of the 2nd Acquisition Agreement;
- (d) if required by the Stock Exchange or other regulatory authorities, the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the 2nd Acquisition Agreement and the transactions contemplated thereunder;
- (e) the obtaining of the Exploration License by Mingrunfeng before 31 October 2007; and
- (f) the obtaining of approval of the Capital Contribution Agreement from the relevant PRC authorities before 31 October 2007.

The completion of the 2nd Acquisition is conditional upon the completion of the Capital Contribution but not subject to the completion of the New Acquisitions.

### Conditions of the issue of the Consideration Shares

In addition to the conditions set out under the paragraph headed “Conditions of the 2nd Acquisition Agreement” above, the issue of the Consideration Shares is subject to the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares to be allotted and issued under the 2nd Acquisition Agreement.

### Other terms

After the entering into of the 2nd Acquisition Agreement, if a party breaches the terms of the 2nd Acquisition Agreement, the warranties under the 2nd Acquisition Agreement or the terms of the Capital Contribution Agreement which leads to the incapability of the performance of the 2nd Acquisition Agreement or results in damages to the counter party, such party shall pay compensation of RMB980,000 (equivalent to approximately HK\$980,000) to the counter party. After the satisfaction of the conditions of the 2nd Acquisition Agreement (save for conditions (e) and (f)) as set out above, should Mr. Yang be in breach of the 2nd Acquisition Agreement, Mr. Yang shall compensate Bright Asset for the losses suffered by Bright Asset up to a maximum amount equivalent to the proceeds to be obtained by Mr. Yang from the 2nd Acquisition.

---

## LETTER FROM THE BOARD

---

### **BASIS OF CONSIDERATIONS FOR THE NEW ACQUISITIONS AND 2ND ACQUISITION**

The issue price per Consideration Share of HK\$0.33 represents i) a discount of approximately 60.71% to the closing price of HK\$0.84 per Share as quoted on the Stock Exchange on 16 January 2007, being the last trading day prior to the suspension of trading in the Shares before the issue of the Second Announcement; ii) a discount of approximately 55.41% to the average closing price of approximately HK\$0.74 per Share as quoted on the Stock Exchange for the last five trading days up to and including 16 January 2007; iii) a discount of approximately 53.91% to the average closing price of approximately HK\$0.716 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 16 January 2007; and iv) a discount of approximately 54.79% to the closing price of HK\$0.73 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The consideration for the Capital Contribution, 1st Acquisition, New Acquisitions and 2nd Acquisition amounts to RMB20 million (equivalent to approximately HK\$20 million), HK\$42.9 million, HK\$80,451,452.40 and HK\$39,008,547.60 respectively. Based on the considerations above, the consideration for 1% of equity interests in Mingrunfeng will be approximately HK\$392,000 for the Capital Contribution, approximately HK\$2,258,000 for the 1st Acquisition, approximately HK\$2,438,000 for the New Acquisitions and approximately HK\$2,438,000 for the 2nd Acquisition.

The Directors consider that the consideration for 1% of equity interests in Mingrunfeng under the New Acquisitions and 2nd Acquisition of approximately HK\$2,438,000 being higher than the consideration per 1% of equity interests in Mingrunfeng under the Capital Contribution of approximately HK\$392,000 and 1st Acquisition of approximately HK\$2,258,000 is justifiable given that i) for the Capital Contribution, completion of the New Acquisitions and 2nd Acquisition is subject to, among other things, the obtaining of the Exploration License by Mingrunfeng. Accordingly, the business risk that the Exploration License may not be obtained by Mingrunfeng for it to proceed to the exploration of the Coal Mine will be significantly lowered under the New Acquisitions and 2nd Acquisition than that under the Capital Contribution. In addition, with the completion of the general exploration stage of the Coal Mine in November 2006 and the approval of the Longwang's general exploration stage exploration report by an independent institution appointed by the Department of Land and Resources of Inner Mongolia Autonomous Region on 10 December 2006, the estimation of the reserve of the Coal Mine is more reliable as at the time of entering into the Capital Contribution Agreement; ii) for the 1st Acquisition, in addition to the more reliable estimation of reserve of the Coal Mine, the equity interests in Mingrunfeng to be acquired by Bright Asset is higher under the New Acquisitions and 2nd Acquisition than that under the 1st Acquisition.

Regarding the payment method for the aggregate consideration of HK\$119,460,000 for the New Acquisitions and 2nd Acquisition in the form of allotment and issue of an aggregate of 362,000,000 Consideration Shares at an issue price of HK\$0.33 per Consideration Share, the issue price was arrived at after arm's length negotiation between the parties to the New Acquisition Agreements and 2nd Acquisition Agreement with reference to, among other things, the issue price per Consideration Share for the 1st Acquisition which is also HK\$0.33. Given the same issue price per Consideration Share and the higher consideration, the number of Consideration Shares to be allotted and issued for the New Acquisitions and 2nd Acquisition is 362,000,000 Shares, as compared to the 130,000,000 Shares to be allotted and issued under the 1st Acquisition. The Directors are of the view that making such an overall change in the terms

---

## LETTER FROM THE BOARD

---

of the acquisition of Mingrunfeng from that under the 1st Acquisition Agreement to that under the New Acquisition Agreements and 2nd Acquisition Agreement while maintaining the same issue price of HK\$0.33 per Consideration Share is fair and reasonable. The Directors consider that the consideration for the New Acquisitions and 2nd Acquisition which will be satisfied by the allotment and issue of Consideration Shares would allow the maximization of the potential value of the Coal Mine without affecting the working capital of the Group and is in the interests of the Company and the Shareholders a whole.

### **LOAN FACILITY AGREEMENT**

**Date of the Loan Facility Agreement:** 22 September 2006

#### **Parties to the Loan Facility Agreement**

Lender: Bright Asset

Borrower: Mingrunfeng

#### **Loan Facility to be provided by Bright Asset**

Pursuant to the Loan Facility Agreement, Bright Asset as lender, has agreed to provide, and Mingrunfeng as borrower, has agreed to accept, a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK\$40 million).

#### **Drawdown period**

The Loan Facility shall be for a term of three years commencing from the date of the first drawdown made by Mingrunfeng, and a written notice has to be provided by Mingrunfeng for each drawdown. Should Mingrunfeng intend to make any drawdown under the Loan Facility Agreement and such drawdown be approved by Bright Asset and the Board, Bright Asset and Mingrunfeng shall enter into a specific loan agreement specifying, among other things, the amount of loan being drawdown. Bright Asset will only release the loan amount to Mingrunfeng after such specific loan agreements are registered with the relevant government authorities. Bright Asset and the Board shall have the absolute discretion to approve or decline such proposed drawdown made by Mingrunfeng.

#### **Term**

Bright Asset shall have the absolute discretion to demand Mingrunfeng to repay, in whole or in part, the principal and interest for the time being outstanding within 30 days upon giving a written notice to Mingrunfeng.

#### **Interest**

The amount drawn under the Loan Facility shall bear interest at the rate of 3% per annum above the Hong Kong Dollar Prime Rate quoted by The Bank of China (Hong Kong) Limited from time to time, and is payable by Mingrunfeng on a quarterly basis. In addition, Mingrunfeng shall procure the Original Shareholders to provide irrevocable guarantee to Bright Asset for any loan amount drawn by Mingrunfeng.

---

## LETTER FROM THE BOARD

---

### Conditions precedent of the Loan Facility Agreement

The Loan Facility Agreement is conditional upon:

- (a) the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Loan Facility Agreement and the transactions contemplated thereunder;
- (b) the Capital Contribution Agreement being approved by the relevant government authorities and the completion of the necessary procedures to the change of particulars in the business license of Mingrunfeng; and
- (c) the completion of the Capital Contribution.

### GUARANTEE AGREEMENT

On 22 September 2006, Bright Asset and the Original Shareholders entered into the Guarantee Agreement pursuant to which, after the approval of the Capital Contribution Agreement by the relevant government authorities and the completion of the necessary procedures to change the particulars in the business license of Mingrunfeng, Bright Asset and the Original Shareholders shall provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective equity interests in Mingrunfeng from time to time and in the form that the lenders of such loan facility may accept should the lenders of such loan facility demand for guarantee being provided by the shareholders of Mingrunfeng.

The Guarantee Agreement will still be valid after Mingrunfeng becomes a wholly-owned subsidiary of the Company. However, as the Original Shareholders will not have any shares in Mingrunfeng and the Guarantee Agreement only requires that the Original Shareholders provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng, the Original Shareholders will not be required to provide such guarantees upon completion of all the Capital Contribution, New Acquisitions and 2nd Acquisition.

### Other terms

- In the event that Bright Asset or the Original Shareholders is a lender of such loan facility to Mingrunfeng, save for such lender, Bright Asset and the Original Shareholders shall provide guarantees for such loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time.
- In the event that Bright Asset or the Original Shareholders is incapable to provide guarantee for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng from time to time, or in the form that the lender accepts, other parties to the Guarantee Agreement shall have no obligations to provide such guarantee.



---

## LETTER FROM THE BOARD

---

### Conditions precedent of the Guarantee Agreement

The Guarantee Agreement is conditional upon:

- (a) the passing of the necessary resolutions by the Shareholders at an extraordinary general meeting of the Company to approve the Guarantee Agreement and the transactions contemplated thereunder;
- (b) the fulfillment of all the conditions precedent of the Capital Contribution Agreement (please refer to the paragraph headed “Condition precedents of the Capital Contribution Agreement” in the section headed “Capital Contribution Agreement” for details).

### CANCELLATION AGREEMENT

As Bright Asset entered into the New Acquisition Agreements and the 2nd Acquisition Agreement on 16 January 2007 to acquire the remaining 49% equity interests in Mingrunfeng, Bright Asset and the Original Shareholders entered into the Cancellation Agreement on 16 January 2007 to cancel the 1st Acquisition Agreement. There is no consideration to be paid or received by the parties under the Cancellation Agreement.

### REASONS FOR ENTERING INTO THE AGREEMENTS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of toys and decorative gift items. In order to diversify the businesses of the Group, the Company has been actively exploring new investment opportunities with profitable prospects. In view of the worldwide increasing demand for natural and energy resources according to industry research reports, the Board is of the opinion that the entering into the Capital Contribution Agreement will provide an opportunity for the Group to enter into the natural and energy resources industry and to diversify the business risk resulting from the over-concentration of the businesses of the Group. In addition, in view of the completion of the general exploration stage in respect of the Coal Mine, the Board is of the opinion that the entering into of the New Acquisition Agreements and the 2nd Acquisition Agreement relating to the acquisition of the remaining 49% equity interests in Mingrunfeng will provide an opportunity for the Group to maximize the potential benefit which will be obtained from the Coal Mine through holding the entire equity interests in Mingrunfeng. While diversifying the businesses of the Group, the Board intends to continue with the Group’s existing businesses and does not have any plan to discontinue with the Group’s existing businesses.

In order to enter into the coal business which is new to the Company, the Board has carried out researches including but not limited to studying relevant industrial reports conducted by leading investment banks and other relevant statistical data relating to the coal industry and its associated risks. The Board also studied the exploration report prepared by Longwang and performed fieldwork investigation on the Coal Mine. To facilitate the management of the new business and maximize the potential value of the Coal Mine, the Board intends to appoint professionals and experts after completion of the Capital Contribution or the New Acquisitions. The Board will take steps, including studying the background, professional expertise and working experience of the professionals and experts and senior management of coal enterprises in the PRC, in order to familiarise with those experts with relevant experience and expertise in the natural and energy resources industry.



---

## LETTER FROM THE BOARD

---

By obtaining the Exploration License from Guoxin to Mingrunfeng, the Group can either transfer the Exploration License for a return of cash consideration or conduct exploration works at the Coal Mine and apply for relevant permits, licenses and approval to conduct mining activities at the Coal Mine both of which will potentially generate income for the Group. In the event that the Group decides to pursue and conduct exploration works at the Coal Mine, subject to the obtaining of Exploration License by Mingrunfeng by the end of May 2007, the exploitation of the Coal Mine is expected to commence by the end of 2007.

After assessing the risks associated with the coal business of Mingrunfeng and taking into account, among other things, that i) the preliminary estimated reserves of the Coal Mine of approximately 110.79 million tons made by Longwang in the general exploration stage exploration report and the preliminary estimated value of the exploration rights of the Coal Mine of approximately RMB166.2 million (equivalent to approximately HK\$166.2 million) if reference is made to the minimum concession price of RMB1.5 per ton of coal set by the People's Government of Inner Mongolia Autonomous Region; ii) the general exploration stage exploration report prepared by Longwang and the fieldwork investigation on the Coal Mine carried out by the Directors; iii) it is anticipated that the Exploration License will be obtained by Mingrunfeng by the end of May 2007; iv) based on the PRC legal opinion, application can be made within 30 days prior to the expiration of the Exploration License to extend the exploration rights of the Coal Mine for a term of not more than two years; v) Guoxin will use its best endeavours to assist in the renewal of the Exploration License before transfer of the Exploration License to Mingrunfeng; vi) the Group, upon completion of the Capital Contribution, will have a control over Mingrunfeng which holds the consideration for the Capital Contribution paid by the Group and accordingly the Group will have a control over the capital contributed to Mingrunfeng by Bright Asset no matter whether the transfer of the Exploration License from Guoxin to Mingrunfeng pursuant to the Co-Operation Agreement takes place; vii) the price of the coal is on an upward trend with a current market price of approximately RMB160 per ton; and viii) the approval of the Longwang's general exploration stage exploration report in respect of the Coal Mine by an independent institution appointed by the Department of Land and Resources of Inner Mongolia Autonomous Region on 10 December 2006, the Directors consider that the terms of the Capital Contribution Agreement, New Acquisition Agreements and 2nd Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Regarding the Loan Facility Agreement, despite that there may have or may not have a pledge of assets for the Loan Facility which may be drawn by Mingrunfeng, taking into account, among other things, that i) the Loan Facility Agreement is conditional on completion of the Capital Contribution, which implies that the Group will have control over Mingrunfeng and the Loan Facility at the time when Mingrunfeng can drawdown the Loan Facility; and ii) pursuant to the Loan Facility Agreement, Mingrunfeng shall procure the Original Shareholders to provide irrevocable guarantee to Bright Asset for any amount drawn by Mingrunfeng, the Directors consider that the terms of the Loan Facility Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

---

## LETTER FROM THE BOARD

---

### INFORMATION ON SUBJECT ENTITIES

#### (1) INFORMATION ON JUMPLEX

Jumplex is a company incorporated in the British Virgin Islands with limited liability on 20 April 2006 and is principally engaged in investment holdings in the PRC. As at the Latest Practicable Date, Jumplex was interested in 12.24% of the equity interests in Mingrunfeng. Jumplex is wholly and beneficially owned by Mr. Choi.

According to the audited financial statements of Jumplex, Jumplex recorded net loss before and after taxation of approximately HK\$20,000 for the period from 20 April 2006 (date of incorporation) to 31 December 2006. As at 31 December 2006, the total assets and net liabilities of Jumplex were approximately HK\$61,000 and approximately HK\$20,000 respectively. Save for the equity interests in Mingrunfeng, Jumplex had no other investments or major assets as at the Latest Practicable Date.

#### (2) INFORMATION ON FIRST CHOICE

First Choice is a company incorporated in the British Virgin Islands with limited liability on 28 March 2002 and is principally engaged in investment holdings in the PRC. As at the Latest Practicable Date, First Choice was interested in 16.33% of the equity interests in Mingrunfeng. First Choice is wholly and beneficially owned by Ms. Lee.

According to the audited financial statements of First Choice, First Choice recorded net loss before and after taxation of approximately HK\$15,000 for the year ended 31 December 2005 and HK\$22,000 for the year ended 31 December 2006. As at 31 December 2006, the total assets and net liabilities of First Choice were approximately HK\$784,000 and approximately HK\$55,000 respectively. Save for the equity interests in Mingrunfeng, First Choice had no other investments or major assets as at the Latest Practicable Date.

#### (3) INFORMATION ON WISE HOUSE

Wise House is a company incorporated in the British Virgin Islands with limited liability on 7 July 2004 and is principally engaged in investment holdings in the PRC. As at the Latest Practicable Date, Wise House was interested in 38.78% of the equity interests in Mingrunfeng. Wise House is beneficially owned by Mr. Chan as to 63% and Mr. Chung as to 37%.

According to the audited financial statements of Wise House, Wise House recorded net loss before and after taxation of approximately HK\$9,000 for the year ended 31 December 2005 and approximately HK\$38,000 for the year ended 31 December 2006. As at 31 December 2006, the total assets and net assets of Wise House were approximately HK\$432,000 and approximately HK\$228,000 respectively. Save for the equity interests in Mingrunfeng, Wise House had no other investments or major assets as at the Latest Practicable Date.

---

## LETTER FROM THE BOARD

---

### (4) INFORMATION ON MINGRUNFENG

#### *Mingrunfeng*

Mingrunfeng is a company established in the PRC on 24 September 2003 and is principally engaged in the trading of construction materials and electrical appliances and the provision of related consultancy services. Mingrunfeng has become dormant since June 2004 and has entered into the Co-Operation Agreement with Guoxin on 15 June 2006 for the exploration of the Coal Mine in Xilinguolemeng of the Inner Mongolia Autonomous Region of the PRC with an area of approximately 227.80 km<sup>2</sup>. Before entering into of the Co-Operation Agreement, pursuant to a transfer agreement dated 7 June 2006, Mingrunfeng had paid an amount of RMB9,380,000 (equivalent to approximately HK\$9,380,000) to an independent third party as the consideration to effect the transfer of the rights to co-operate with Guoxin in respect of the exploration of the Coal Mine and to secure the entering into the Co-Operation Agreement. Such independent third party had originally entered into an agreement with Guoxin on 10 May 2005 relation to its co-operation with Guoxin in the exploration of the Coal Mine.

According to the audited financial statements of Mingrunfeng as prepared under the PRC accounting standards, Mingrunfeng recorded an audited net loss before and after taxation of approximately RMB0.1 million (equivalent to approximately HK\$0.1 million) for the year ended 31 December 2004 and RMB0.2 million (equivalent to approximately HK\$0.2 million) for the year ended 31 December 2005. As at 31 December 2005, the total assets and net assets of Mingrunfeng were approximately RMB1.0 million (equivalent to approximately HK\$1.0 million) and RMB0.2 million (equivalent to approximately HK\$0.2 million) respectively. Audited financial statements of Mingrunfeng for the year ended 31 December 2006 as prepared under the PRC accounting standards have not been issued yet as at the Latest Practicable Date.

According to the accountants report on Mingrunfeng as prepared under the Hong Kong Financial Reporting Standards as set out in Appendix II to this circular, Mingrunfeng recorded the same audited net losses before and after taxation for the year ended 31 December 2004 and for the year ended 31 December 2005 and the same net assets of Mingrunfeng as at 31 December 2005 as prepared under the PRC accounting standards. The total assets and net assets of Mingrunfeng as at 31 December 2005 was approximately HK\$0.4 million and HK\$0.2 million respectively. For the year ended 31 December 2006, Mingrunfeng recorded audited net loss before and after taxation of approximately HK\$2.2 million. As at 31 December 2006, Mingrunfeng had total assets and net liabilities of approximately HK\$25.2 million and HK\$2.0 million respectively.

#### *Guoxin and the Co-Operation Agreement*

Guoxin is a company established in the PRC on 20 October 2004 and is principally engaged in provision of exploration and consultancy services in relation to mines and sale of mining equipment. Guoxin is the legal owner of the Exploration License, being the legal certificate for the exploration rights of the Coal Mine, which is effective from 12 June 2006 to 31 October 2007. To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, Guoxin and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Pursuant to the Co-Operation Agreement, among other things, i) Guoxin is responsible for the application of the exploration rights of the Coal Mine; ii) Mingrunfeng is responsible for the provision of technical advise and supervision of the exploration works of the Coal Mine; and iii) Guoxin will transfer its entire exploration rights of the Coal Mine to Mingrunfeng when the exploration works of the Coal Mine has reached the general exploration stage in return for a cash consideration representing 20% of the value of the exploration rights of the Coal Mine as being appraised by an independent valuation institution to be agreed by Guoxin and Mingrunfeng.

---

## LETTER FROM THE BOARD

---

To discharge the responsibilities under the Co-Operation Agreement, Mingrunfeng appointed Longwang on July 2006 to perform the exploration works of the Coal Mine and recruited two engineers with relevant experience and expertise to follow the exploration progress of Longwang. Guoxin will make the necessary applications for the transfer of the Exploration License to Mingrunfeng upon the cash consideration representing 20% of the value of the exploration rights of the Coal Mine has been paid by Mingrunfeng.

The cash consideration for the transfer of the Exploration License from Guoxin to Mingrunfeng will be entrusted to an independent notary office when the exploration works of the Coal Mine has reached the general exploration stage and will be disbursed to Guoxin after completion of the transfer of the Exploration License to Mingrunfeng. The cash consideration for the exploration rights of the Coal Mine is not subject to the exploration results but solely depends on the value of the exploration rights as appraised by the independent valuation institution and such amount can only be ascertained after the exploration works of the Coal Mine has reached the general exploration stage. The completion of the general exploration stage should be verified upon the obtaining of the verification on the general exploration report from the Department of Land and Resources of Inner Mongolia Autonomous Region.

The cash consideration representing 20% of the value of the exploration rights of the Coal Mine to be paid by Mingruneng, which will become a 51%-owned subsidiary of the Company upon completion of the Capital Contribution, to Guoxin under the Co-Operation Agreement will be financed by, among other ways, the internal resources of Mingrunfeng or bank borrowings if the directors of Mingrunfeng consider appropriate.

The general exploration stage in respect of the Coal Mine has been completed in November 2006 and the general exploration stage exploration report prepared by Longwang has been approved by an independent institution appointed by the Department of Land and Resources of Inner Mongolia Autonomous Region on 10 December 2006. As at the Latest Practicable Date, Guoxin and Mingrunfeng were approaching certain independent valuation institutions to conduct valuation on the exploration rights of the Coal Mine. The independent valuation on the exploration rights of the Coal Mine and the transfer of the Exploration License from Guoxin to Mingrunfeng (including completion of the necessary procedures for the transfer of the Exploration License) is expected to be available and take place by the end of May 2007. Further announcements will be made by the Company upon the result of the transfer of the Exploration License from Guoxin and if applicable, the future obtaining of the exploitation rights in respect of the Coal Mine by Mingrunfeng, can be ascertained. According to the accountants' report of Mingrunfeng set out in Appendix II to this circular, the cost of the exploration work of Longwang incurred up to 31 December 2006 amounted to approximately RMB14.5 million (equivalent to approximately HK\$14.5 million). Such exploration costs include costs incurred for exploration drilling rigs, downhole logging, geological survey, data analysis and the compilation of the general exploration stage exploration report of the Coal Mine.

Based on the PRC Legal Opinion, the Exploration License is validly held by Guoxin and the arrangements under the Co-Operation Agreement, including the transfer of the Exploration License from Guoxin to Mingrunfeng, are valid and legally enforceable under the PRC laws. The Exploration License is freely transferable subject to the approval by the relevant government authorities.

---

## LETTER FROM THE BOARD

---

In the view that the conditions of the transfer of the Exploration License from Guoxin to Mingrunfeng have been fulfilled and it may take time for the completion of the valuation of the Exploration License, on 10 March 2007, Guoxin and Mingrunfeng entered into a supplemental agreement to the Co-Operation Agreement in order to speed up the transfer of the Exploration License of the Coal Mine. Pursuant to this supplemental agreement, Guoxin will transfer the Exploration License to Mingrunfeng upon the payment by Mingrunfeng (i) RMB5 million (equivalent to approximately HK\$5 million) to Guoxin as prepayment of part of the 20% of the value of the exploration rights of the Coal Mine, being the consideration for the transfer of the Exploration License and (ii) RMB2,278,000 (equivalent to approximately HK\$2,278,000) to the Department of Land and Resources of the Inner Mongolia Autonomous Region as the premium for the transfer of the Exploration License. The supplemental agreement also specifies that any remaining cash consideration for the transfer of the Exploration License shall be paid to Guoxin within three months if the value of the exploration rights of the Coal Mine being appraised by the independent valuation institution is higher than RMB5 million or Guoxin shall refund the excess portion to Mingrunfeng within three months if the value of the exploration rights of the Coal Mine being appraised by the independent valuation institution is lower than RMB5 million. Mingrunfeng has paid RMB5 million and RMB2,278,000 to Guoxin and the Department of Land and Resources of the Inner Mongolia Autonomous Region on 26 March 2007, respectively. The transfer of the Exploration License to Mingrunfeng was still under process as at the Latest Practicable Date.

### *Longwang*

Longwang, the professional geological exploration company in charge of the exploration works of the Coal Mine, was established in the PRC on 12 May 2005 and is a holder of the Certificate of Qualification for Geological Exploration (地質勘查資質證書)<sup>#</sup> issued by the Ministry of Land and Resources of the PRC. In 2006, Longwang was accredited with the ISO9001 quality assurance certificate and the ISO14001 environmental management certificate. Given that i) the exploration works and the reserves estimation are carried out by Longwang with the qualifications as stated above; and ii) the general exploration stage exploration report prepared by Longwang in November 2006 has been approved by an independent institution appointed by the Department of Land and Resources of Inner Mongolia Autonomous Region on 10 December 2006, the Directors consider the exploration report prepared by Longwang to be reliable. To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, Longwang together with its ultimate beneficial owners are third parties independent of the Company and its connected persons.

---

## LETTER FROM THE BOARD

---

### *The Coal Mine*

The preliminary estimated reserves of the Coal Mine by Longwang pursuant to the Specifications for Coal, Peat Exploration (煤、泥炭地質勘探規範)<sup>#</sup> is approximately 110.79 million tons. If reference is made to the minimum concession price of the exploration and exploitation rights of coal mine of RMB1.5 per ton of coal set by the People's Government of Inner Mongolia Autonomous Region, the preliminary value of the exploration rights of the Coal Mine is estimated to be approximately RMB166.2 million (equivalent to approximately HK\$166.2 million). According to Longwang, the current market price of the coal expected to be extracted from the Coal Mine is approximately RMB160 per ton and the market price of the coal of the Coal Mine has increased by approximately 15% to 20% per annum during the period from 2003 to 2006. Given that i) the exploration works and the reserves estimation are carried out by Longwang, which is a holder of the Certificate of Qualification for Geological Exploration (地質勘查資質證書)<sup>#</sup> issued by the Ministry of Land and Resources of the PRC; and ii) the general exploration stage exploration report prepared by Longwang has been approved by an independent institution appointed by the Department of Land and Resources of Inner Mongolia Autonomous Region on 10 December 2006, the Directors consider it is of little chance that the reserves of the Coal Mine as being assessed by SRK Consulting will have a substantial deviation from the reserves as estimated by Longwang. The Coal Mine is owned by the PRC government and only the holder of the Exploration License has the exploration rights on the Coal Mine.

**Shareholders and potential investors of the Company should note that the information on the Coal Mine is primarily based on the general exploration stage exploration report prepared by Longwang in November 2006, which was approved by an independent institution appointed by the Department of Land and Resources of Inner Mongolia Autonomous Region on 10 December 2006. In addition, the Company has appointed SRK Consulting as the independent technical adviser to compile a technical report for the Coal Mine in accordance with the requirements of the Listing Rules which is enclosed in Appendix V to this circular. On the other hand, the New Acquisitions and the 2nd Acquisition are subject to the obtaining of the Exploration License by Mingrunfeng before 31 October 2007 and the mining activities at the Coal Mine is subject to the obtaining of the exploitation rights of the Coal Mine by Mingrunfeng.**

Pursuant to the technical report prepared by SRK Consulting enclosed in Appendix V to this circular, the Coal Mine has been explored in detail to define a resource of thermal coal suitable for the domestic market and amenable to open cut mining methods. Based on the current drilling results, SRK Consulting is of the view that the Coal Mine has a coal resource of approximately 106 million tons which is about 4.79 million tons less than the estimation of approximately 110.79 million tons made by Longwang. The Directors consider the shortfall in the estimated reserves of the Coal Mine is not significant. SRK Consulting is not aware of any issue that may cause any significant impact on the mining of the Coal Mine. Although SRK Consulting considers that there is insufficient data to determine a mine design or to estimate a proven mineable reserve as at the Latest Practicable Date, SRK Consulting is of the opinion that, given the excellent potential of the Coal Mine to become an economic open cut coal mine, further drilling should be conducted to provide sufficient detail for a final feasibility study for the Coal Mine.



---

## LETTER FROM THE BOARD

---

### (5) LOAN FACILITY AGREEMENTS IN RELATION TO MINGRUNFENG

Subsequent to 31 December 2006, the date to which the latest audited financial statements of the Subject Entities were made up, the Subject Entities and Mr. Yang have entered into three loan facility agreements with independent third parties to finance the exploration works of the Coal Mine. Details of the loan facility agreements are set out below and are stated in the notes to the financial information of the Subject Entities set out in Appendix II to this circular.

On 20 January 2007, the Subject Entities, Mr. Yang and an independent third party entered into a loan facility agreement. Pursuant to the agreement, the lender has provided a loan in the amount of RMB1,500,000 (equivalent to approximately HK\$1,500,000) to Mingrunfeng which bear interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.

On 19 March 2007, the Subject Entities and Mr. Yang further entered into two loan facility agreements with two independent third parties. Pursuant to the agreements, the two lenders will provide loans in the amount of RMB3,000,000 (equivalent to approximately HK\$3,000,000) and RMB3,000,000 (equivalent to approximately HK\$3,000,000) respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. According to the notes to the financial information of the Subject Entities set out in Appendix II to this circular, the full loan amount of RMB6,000,000 (equivalent to approximately HK\$6,000,000) had been drawn by Mingrunfeng of which RMB3,000,000 (equivalent to approximately HK\$3,000,000) is due for repayment on or before 21 September 2007 and RMB3,000,000 (equivalent to approximately HK\$3,000,000) is due for repayment on or before 22 September 2007.

In addition, pursuant to a loan agreement entered by the Subject Entities with an independent third party on 16 November 2006, the lender will provide a loan of RMB2,000,000 (equivalent to approximately HK\$2,000,000) to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. Mingrunfeng has drawn down RMB500,000 (equivalent to approximately HK\$500,000), RMB500,000 (equivalent to approximately HK\$500,000) and RMB1,000,000 (equivalent to approximately HK\$1,000,000) on 22 December 2006, 8 January 2007 and 27 March 2007, respectively. The loans are repayable on or before 22 June 2007, 8 July 2007 and 27 September 2007, respectively. Such amounts are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.

---

## LETTER FROM THE BOARD

---

### INFORMATION ON THE EXPLORATION WORKS

Pursuant to the Classification For Resources, exploration works consist of four stages, namely reconnaissance stage (預查階段)#, prospecting stage (普查階段)#, general exploration stage (詳查階段)#, and detailed exploration stage (勘查階段)#. The objectives of the different stages of exploration works can be summarized as follows:

- Reconnaissance stage: to identify a site with greater mineralization potential available, projected resource can be estimated where there are sufficient bases.
- Prospecting stage: to roughly identify the general condition of geology and structure in the prospecting site; to roughly obtain the features of the form, occurrence and quality of an ore body (bed) and to roughly understand the technical requirements for mining; and to finally propose whether it is worthy of a further general exploration or to identify a scope of the site for the general exploration stage.
- General exploration stage: to primarily identify the geology, structure and form of a major ore body and the occurrence, size and quality of the ores; to primarily ascertain the continuity of an ore body and to primarily identify the technical requirements for mining; where necessary, to identify the scope for the detailed exploration stage for pre-feasibility study, general planning for a mine as well as use in a mine proposal.
- Detailed exploration stage: to ascertain the continuity of the ore body (bed) in the spaces between by conducting more frequent samplings in a mineral deposit with a known industrial value or in an exploratory site identified during the general exploration stage to identify the geological features of the mineral deposit; to ascertain the form, occurrence, size and space location of an ore body as well as the quality and features of the ores; to identify the technical requirements for exploration of the ore body, and to conduct laboratory procedural tests or laboratory expanding and continuous tests on the processability, selectivity and smeltability of minerals; where necessary, a semi-industrial test should be performed to provide a base for a feasibility study or the construction design of a mine.



## LETTER FROM THE BOARD

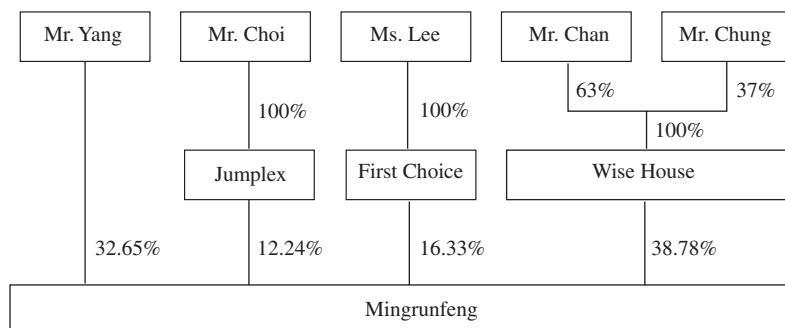
### SHAREHOLDING STRUCTURE OF THE SUBJECT ENTITIES

The following table sets out the shareholding structure of Mingrunfeng i) as at the Latest Practicable Date; ii) immediately upon completion of the Capital Contribution only; iii) immediately upon completion of the New Acquisitions only; iv) immediately upon completion of the Capital Contribution and New Acquisitions; v) immediately upon completion of the Capital Contribution and 2nd Acquisition; and vi) immediately upon completion of the Capital Contribution, New Acquisitions and 2nd Acquisition:

	As at the Latest Practicable Date	Immediately upon completion of the Capital Contribution only	Immediately upon completion of the New Acquisitions only <i>(Note)</i>	Immediately upon completion of the Capital Contribution and New Acquisitions <i>(Note)</i>	Immediately upon completion of the Capital Contribution and 2nd Acquisition	Immediately upon completion of the Capital Contribution, New Acquisitions and 2nd Acquisition <i>(Note)</i>
Bright Asset	-	51%	67.35%	51%	67%	67%
Mr. Yang	32.65%	16%	32.65%	16%	-	-
Jumplex	12.24%	6%	-	6%	6%	6%
First Choice	16.33%	8%	-	8%	8%	8%
Wise House	38.78%	19%	-	19%	19%	19%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

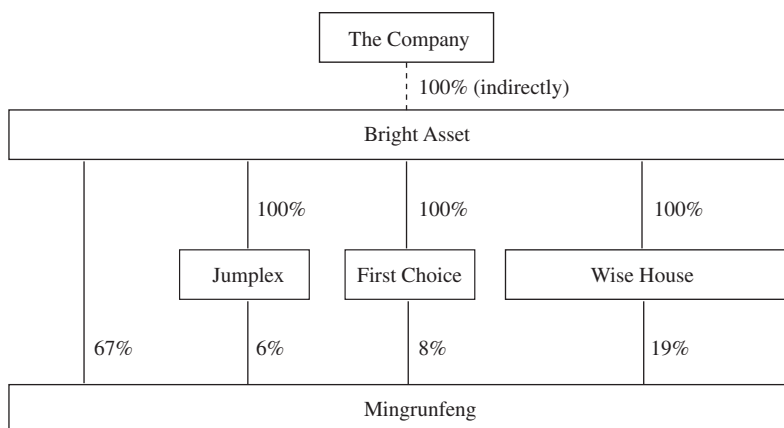
*Note:* Jumplex, First Choice and Wise House will all become indirect wholly-owned subsidiaries of the Company upon completion of the New Acquisitions and the Company will therefore be interested in their respective equity interests in Mingrunfeng.

The diagram below shows the shareholding structure of the relevant entities as at the Latest Practicable Date:



## LETTER FROM THE BOARD

The diagram below shows the shareholding structure of the relevant entities immediately after completion of the Capital Contribution, New Acquisitions and 2nd Acquisition:



### SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company i) as at the Latest Practicable Date; ii) immediately upon completion of the New Acquisitions; iii) immediately upon completion of the 2nd Acquisition; and iv) immediately upon completion of the New Acquisitions and 2nd Acquisition:

	As at		Immediately upon		Immediately upon		Immediately upon completion	
	the Latest		completion of the		completion of the		of the New	
	Practicable Date		New Acquisitions		2nd Acquisition		Acquisitions and	
	No. of	%	No. of	%	No. of	%	No. of	%
	Shares	(Approx.)	Shares	(Approx.)	Shares	(Approx.)	Shares	(Approx.)
Legend Win Profits Limited (Note 1)	1,567,500,000	52.32%	1,567,500,000	48.38%	1,567,500,000	50.33%	1,567,500,000	46.68%
Mr. Yu Wong Kong, Dennis (Note 2)	344,500,000	11.50%	344,500,000	10.63%	344,500,000	11.06%	344,500,000	10.26%
Mr. Yang	-	-	-	-	118,207,720	3.80%	118,207,720	3.52%
Mr. Choi	-	-	44,350,175	1.37%	-	-	44,350,175	1.32%
Ms. Lee	-	-	59,103,859	1.82%	-	-	59,103,859	1.76%
Mr. Chan	-	-	88,413,095	2.73%	-	-	88,413,095	2.63%
Mr. Chung	-	-	51,925,151	1.60%	-	-	51,925,151	1.55%
Other public Shareholders	1,084,253,800	36.18%	1,084,253,800	33.47%	1,084,253,800	34.81%	1,084,253,800	32.28%
<b>Total</b>	<b>2,996,253,800</b>	<b>100%</b>	<b>3,240,046,080</b>	<b>100%</b>	<b>3,114,461,520</b>	<b>100%</b>	<b>3,358,253,800</b>	<b>100%</b>

---

## LETTER FROM THE BOARD

---

*Notes:*

1. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being Executive Directors, 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, all being executive Directors, are the registered members and directors of Hui's K.K. Foundation Limited.
2. Save for being a substantial Shareholder, Mr. Yu Wong Kong, Dennis is a third party independent of the Company and its connected persons.

The Transactions will not result in a change of control of the Company.

### **FINANCIAL EFFECTS OF THE TRANSACTIONS**

Following completion of the Capital Contribution, New Acquisitions and 2nd Acquisition, Jumplex, First Choice, Wise House and Mingrunfeng will become wholly-owned subsidiaries of the Company. The following sets out, for illustrative purposes only, the key financials of (i) the unaudited pro forma income statement of the Enlarged Group commencing on 1 January 2005 as if the Capital Contribution, New Acquisitions and 2nd Acquisition had been completed" on 1 January 2005; and (ii) the unaudited pro forma balance sheet of the Enlarged Group as at 30 June 2006 as if the Capital Contribution, New Acquisitions and 2nd Acquisition had been completed on 30 June 2006. Please refer to Appendix III to this circular for basis of preparing the pro forma financial information on the Enlarged Group and the pro forma financial information on the Enlarged Group after completion of the Capital Contribution, New Acquisitions and 2nd Acquisition.

#### **Net assets**

The unaudited consolidated net asset value of the Group as at 30 June 2006 as extracted from the interim report of the Company for the period ended 30 June 2006 was approximately HK\$95.8 million, comprising total assets of approximately HK\$158.8 million and total liabilities of approximately HK\$63.0 million.

As set out in Appendix III to this circular, assuming completion of the Capital Contribution, New Acquisitions and 2nd Acquisition had taken place on 30 June 2006, the pro forma net assets of the Enlarged Group would have been approximately HK\$215.2 million, comprising of pro forma total assets of approximately HK\$292.7 million and pro forma total liabilities of approximately HK\$77.5 million.

#### **Earnings**

The audited net loss of the Group as at 31 December 2005 as extracted from the consolidated income statement of the Group for the year ended 31 December 2005 was approximately HK\$41,000.

As set out in Appendix III to this circular, assuming the Capital Contribution, New Acquisitions and 2nd Acquisition had been completed on 1 January 2005, the pro forma net loss of the Enlarged Group would be approximately HK\$2.3 million.

---

## LETTER FROM THE BOARD

---

### Working Capital

It is estimated that the funding requirement of the Coal Mine for the next 24 months will be approximately RMB120 million. Taking into the account the financial resources available to the Enlarged Group, including internally generated funds, the available banking facilities and credit facilities in the amount of not less than HK\$50 million provided by Legend Win Profits Limited, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 24 months from the date of publication of this circular in the absence of unforeseeable circumstances.

The credit facilities provided by Legend Win Profits Limited is unsecured, interest free and has no specific repayment terms. Legend Win Profits Limited is a substantial shareholder of the Company which held approximately 52.32% of the issued share capital of the Company as at the Latest Practicable Date. The issued share capital of Legend Win Profits Limited 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, all being executive Directors, are the registered members and directors of Hui's K. K. Foundation Limited.

The credit facilities provided by Legend Win Profits Limited to the Enlarged Group for the benefit of the Company on better terms and without granting security over the assets of the Company constitutes a connected transaction exempt from reporting, announcement and independent shareholders' approval requirements under R14A.65(4) of the Listing Rules.

### RISKS ASSOCIATED WITH THE ACQUISITION OF MINGRUNFENG

Set out below are some of the risks associated with the acquisition of Mingrunfeng:

- **The transfer of the Exploration License from Guoxin to Mingrunfeng is subject to the approval of the relevant government authorities. Should the Capital Contribution be approved and completed and Mingrunfeng cannot obtain the Exploration License, the transactions contemplated under the 2nd Acquisition and the Co-Operation Agreement shall not proceed. As such, the Group's investment in Mingrunfeng will not enable the Group to absorb the future value resulting from the Exploration License.**
- **The renewal of the Exploration License, which will expire on 31 October 2007, is subject to the approval of the relevant government authorities. Should the Capital Contribution, New Acquisitions and 2nd Acquisition be approved and completed, in the event that Mingrunfeng cannot obtain such renewal of the Exploration License, Mingrunfeng, a then wholly-owned subsidiary of the Company, will lose the exploration rights of the Coal Mine.**
- **The mining activities at the Coal Mine is subject to the obtaining of the exploitation rights of the Coal Mine from the relevant government authorities. Should Mingrunfeng fail to obtain the exploitation rights of the Coal Mine, Mingrunfeng will have no right to conduct mining activities at the Coal Mine.**

---

## LETTER FROM THE BOARD

---

- **The income generated from the Coal Mine is subject to the cyclical nature of the domestic and international coal market which are affected by numerous factors beyond the Company's control, including but not limited to: i) the general economic conditions in the PRC and elsewhere in the world; ii) changes in weather conditions; and iii) fluctuations in the development and growth of industries with a high demand of coal. The selling price of coal and its margin will also depend on market supply and demand forces in the domestic and international markets.**

### **MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF SUBJECT ENTITIES**

#### **(1) MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF JUMPLEX**

*For the period from 20 April 2006 (date of incorporation) to 31 December 2006*

For the period from 20 April 2006 (date of incorporation) to 31 December 2006, Jumplex had not commenced any operation and did not record any revenue. During the period, Jumplex had incurred net loss of approximately HK\$20,000 which was resulted from general and administrative expenses incurred during the period.

As at 31 December 2006, Jumplex had assets of approximately HK\$61,000 represented by its investment in Mingrunfeng and liabilities of approximately HK\$81,000 represented by other payables and accruals and amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed term of repayment. The assets and liabilities of Jumplex did not have any exposure to fluctuations in exchange rates and Jumplex had not used any financial instruments for hedging purposes. The gearing ratio of Jumplex as at 31 December 2006 calculated as a ratio of total borrowings to total assets was approximately 31%. As at 31 December 2006, Jumplex had not charged any of its assets and had contingent liabilities in respect of guarantees given by Jumplex in respect of other loans of approximately RMB3.5 million (equivalent to approximately HK\$3.5 million) borrowed by Mingrunfeng.

As at 31 December 2006, Jumplex did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. Jumplex has acquired its shareholding interest in Mingrunfeng during the period.

At 31 December 2006, Jumplex had 1 employee which was its director. No remuneration had been paid to the employee during the period.

#### **(2) MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF FIRST CHOICE**

*For the year ended 31 December 2004*

For the year ended 31 December 2004, First Choice had not commenced any operation and did not record any revenue. During the year, First Choice had incurred net loss of approximately HK\$5,000 which was resulted from general and administrative expenses incurred during the year.

---

## LETTER FROM THE BOARD

---

As at 31 December 2004, First Choice had assets of approximately HK\$619,000 represented by loan made to a third party and liability of approximately HK\$637,000 represented by amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed term of repayment. The asset and liability of First Choice did not have any exposure to fluctuations in exchange rates and First Choice had not used any financial instruments for hedging purposes. The gearing ratio of First Choice as at 31 December 2004 calculated as a ratio of total borrowings to total assets was approximately 103%. As at 31 December 2004, First Choice had not charged any of its assets and did not have any contingent liability.

As at 31 December 2004, First Choice did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. During the year, First Choice did not make any significant investment and did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2004, First Choice had 1 employee which was its director. No remuneration had been paid to the employee during the year.

### *For the year ended 31 December 2005*

For the year ended 31 December 2005, First Choice had not commenced any operation and did not record any revenue. During the year, First Choice had incurred net loss of approximately HK\$15,000 which was resulted from general and administrative expenses incurred during the year.

As at 31 December 2005, First Choice had assets of approximately HK\$619,000 represented by loan made to a third party and liability of approximately HK\$652,000 represented by amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed term of repayment. The asset and liability of First Choice did not have any exposure to fluctuations in exchange rates and First Choice had not used any financial instruments for hedging purposes. The gearing ratio of First Choice as at 31 December 2005 calculated as a ratio of total borrowings to total assets was approximately 105%. As at 31 December 2005, First Choice had not charged any of its assets and did not have any contingent liability.

As at 31 December 2005, First Choice did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. During the year, First Choice did not make any significant investment and did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2005, First Choice had 1 employee which was its director. No remuneration had been paid to the employee during the year.

### *For the year ended 31 December 2006*

For the year ended 31 December 2006, First Choice had not commenced any operation and did not record any revenue. During the year, First Choice had incurred net loss of approximately HK\$22,000 which was resulted from general and administrative expenses incurred during the year.

---

## LETTER FROM THE BOARD

---

As at 31 December 2006, First Choice had assets of approximately HK\$784,000 mainly represented by loan made to a third party and liabilities of approximately HK\$839,000 mainly represented by amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed term of repayment. The assets and liabilities of First Choice did not have any exposure to fluctuations in exchange rates and First Choice had not used any financial instruments for hedging purposes. The gearing ratio of First Choice as at 31 December 2006 calculated as a ratio of total borrowings to total assets was approximately 96%. As at 31 December 2006, First Choice had not charged any of its assets and had contingent liabilities in respect of guarantees given by First Choice in respect of other loans of approximately RMB3.5 million (equivalent to approximately HK\$3.5 million) borrowed by Mingrunfeng.

As at 31 December 2006, First Choice did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. First Choice has acquired its shareholding interest in Mingrunfeng during the year.

At 31 December 2006, First Choice had 1 employee which was its director. No remuneration had been paid to the employee during the year.

### **(3) MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF WISE HOUSE**

*For the period from 7 July 2004 (date of incorporation) to 31 December 2004*

For the period from 7 July 2004 (date of incorporation) to 31 December 2004, Wise House had not commenced any operation and did not record any revenue. During the period, Wise House had incurred net loss of approximately HK\$6,000 which was resulted from general and administrative expenses incurred during the period.

As at 31 December 2004, Wise House had assets of approximately HK\$275,000 mainly represented by amounts due from its shareholders of approximately HK\$273,000 and did not have any liability. The assets of Wise House did not have any exposure to fluctuations in exchange rates and First Choice had not used any financial instruments for hedging purposes. Wise House did not have any gearing (defined as the ratio of total borrowings to total assets) as at 31 December 2004. As at 31 December 2004, Wise House had not charged any of its assets and did not have any contingent liability.

As at 31 December 2004, Wise House did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. During the period, Wise House did not make any significant investment and did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2004, Wise House had 1 employee which was its director. No remuneration had been paid to the employee during the period.

*For the year ended 31 December 2005*

For the year ended 31 December 2005, Wise House had not commenced any operation and did not record any revenue. During the year, Wise House had incurred net loss of approximately HK\$9,000 which was resulted from general and administrative expenses incurred during the year.

---

## LETTER FROM THE BOARD

---

As at 31 December 2005, Wise House had assets of approximately HK\$275,000 mainly represented by amounts due from its shareholders of approximately HK\$273,000 and liability of approximately HK\$9,000 represented by other payables and accruals. The assets and liability of Wise House did not have any exposure to fluctuations in exchange rates and Wise House had not used any financial instruments for hedging purposes. Wise House had no gearing (defined as the ratio of total borrowings to total assets) as at 31 December 2005. As at 31 December 2005, Wise House had not charged any of its assets and did not have any contingent liability.

As at 31 December 2005, Wise House did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. During the year, Wise House did not make any significant investment and did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2005, Wise House had 1 employee which was its director. No remuneration had been paid to the employee during the year.

*For the year ended 31 December 2006*

For the year ended 31 December 2006, Wise House had not commenced any operation and did not record any revenue. During the year, Wise House had incurred net loss of approximately HK\$38,000 which was resulted from general and administrative expenses incurred during the year.

As at 31 December 2006, Wise House had assets of approximately HK\$432,000 mainly represented by amounts due from its shareholders of approximately HK\$238,000 and liability of approximately HK\$204,000 represented by other payables and accruals. The assets and liability of Wise House did not have any exposure to fluctuations in exchange rates and Wise House had not used any financial instruments for hedging purposes. Wise House had no gearing (defined as the ratio of total borrowings to total assets) as at 31 December 2006. As at 31 December 2006, Wise House had not charged any of its assets and had contingent liabilities in respect of guarantees given by Wise House in respect of other loans of approximately RMB3.5 million (equivalent to approximately HK\$3.5 million) borrowed by Mingrunfeng.

As at 31 December 2006, Wise House did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. Wise House has acquired its shareholding interest in Mingrunfeng during the year.

At 31 December 2006, Wise House had 1 employee which was its director. No remuneration had been paid to the employee during the year.

#### **(4) MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF MINGRUNFENG**

*For the year ended 31 December 2004*

For the year ended 31 December 2004, Mingrunfeng had recorded revenue of approximately HK\$67,000 which was derived from the trading of construction materials and electrical appliances and the provision of related consultancy services. During the year, Mingrunfeng had suffered net loss of approximately HK\$103,000.



---

## LETTER FROM THE BOARD

---

As at 31 December 2004, Mingrunfeng had assets of approximately HK\$538,000 mainly comprised of cash and bank balances of approximately HK\$489,000 and liabilities of approximately HK\$178,000 mainly comprised of amount due to a director of approximately HK\$162,000. The amount due to a director was unsecured, interest-free and had no fixed term of repayment. As the assets and liabilities of Mingrunfeng were denominated in Renminbi, its assets and liabilities did not have any exposure to fluctuations in exchange rates and therefore Mingrunfeng had not used any financial instruments for hedging purposes. The gearing ratio of Mingrunfeng as at 31 December 2004 calculated as a ratio of total borrowings to total assets was approximately 30%. As at 31 December 2004, Mingrunfeng had not charged any of its assets and did not have any contingent liabilities.

As at 31 December 2004, Mingrunfeng did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. During the year, Mingrunfeng did not make any significant investment and did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2004, Mingrunfeng had 10 employees. Remuneration packages were reviewed on a periodical basis so as to be maintained at a competitive level.

### *For the year ended 31 December 2005*

For the year ended 31 December 2005, Mingrunfeng had become dormant and suffered net loss of approximately HK\$201,000 which was mainly resulted from general and administrative expenses incurred by Mingrunfeng during the year.

As at 31 December 2005, Mingrunfeng had assets of approximately HK\$351,000 mainly comprised of cash and bank balances of approximately HK\$311,000 and liabilities of approximately HK\$192,000 mainly comprised of amount due to a director of approximately HK\$191,000. The amount due to a director was unsecured, interest-free and had no fixed term of repayment. As the assets and liabilities of Mingrunfeng were denominated in Renminbi, its assets and liabilities did not have any exposure to fluctuations in exchange rates and therefore Mingrunfeng had not used any financial instruments for hedging purposes. The gearing ratio of Mingrunfeng as at 31 December 2005 calculated as a ratio of total borrowings to total assets was approximately 54%. As at 31 December 2005, Mingrunfeng had not charged any of its assets and did not have any contingent liabilities.

As at 31 December 2005, Mingrunfeng did not have any future plan for material investments or capital assets and therefore had no funding requirements for capital expenditure commitments. During the year, Mingrunfeng did not make any significant investment and did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2005, Mingrunfeng had 10 employees. Remuneration packages were reviewed on a periodical basis so as to be maintained at a competitive level.

---

## LETTER FROM THE BOARD

---

*For the year ended 31 December 2006*

For the year ended 31 December 2006, Mingrunfeng remained dormant until it entered the Co-Operation Agreement with Guoxin on 15 June 2006 in respect of the exploration of the Coal Mine. During the year, Mingrunfeng suffered net loss of approximately HK\$2.2 million which was mainly resulted from the general and administrative expenses and finance costs incurred by Mingrunfeng in relation to its exploration of the Coal Mine during the year.

As at 31 December 2006, Mingrunfeng had total assets of approximately HK\$25.2 million mainly comprised of intangible assets of approximately HK\$23.9 million which represented costs incurred in relation to the exploration sub-licensing right and the exploration work of the Coal Mine. In addition, Mingrunfeng had cash and bank balances of approximately HK\$458,000 as at 31 December 2006. Mingrunfeng had liabilities of approximately HK\$27.2 million mainly comprised of deposit received from Bright Asset of approximately HK\$15.0 million in relation to the Capital Contribution, trade payables of approximately HK\$ 5.6 million in relation to the exploration cost payable and other loans of approximately HK\$4.5 million. The other loans bore interest at fixed interest rate, were guaranteed by certain directors and shareholders of Mingrunfeng and were repayable within one year. As the assets and liabilities of Mingrunfeng were denominated in Renminbi, its assets and liabilities did not have any exposure to fluctuations in exchange rates and therefore Mingrunfeng had not used any financial instruments for hedging purposes. The gearing ratio of Mingrunfeng as at 31 December 2006 calculated as a ratio of total borrowings to total assets was approximately 22%. As at 31 December 2006, Mingrunfeng had not charged any of its assets and did not have any contingent liabilities.

As at 31 December 2006, Mingrunfeng did not have any contracted capital commitments. During the year, Mingrunfeng did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2006, Mingrunfeng had 9 employees. Remuneration packages were reviewed on a periodical basis so as to be maintained at a competitive level.

### **BUSINESS REVIEW ON THE GROUP**

During the year of 2005, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK\$31.8 million and HK\$35.7 million, respectively (2004: approximately HK\$39.8 million and HK\$40.9 million, respectively), accounting for approximately 47% and 53% of the Group's total turnover, respectively.

The year of 2005 was challenging for the operations of the Group. Turnover decreased as a result of the intense competition in the PRC toy and gift markets. Nevertheless, the Group managed to significantly narrow its net losses from approximately HK\$11.9 million in 2004 to approximately HK\$0.04

---

## LETTER FROM THE BOARD

---

million in 2005 as a result of the development of new products with value-added features to enhance product profitability and the implementation of various cost control measures by the Group. During the year, the Group has increased its equity interest in Miracles For Fun (HK) Limited (“MFF”) from 30% to 63%. MFF is principally engaged in the design and sale of a wide range of toys and decorative gift items. The Directors believe that such acquisition will expand the customer base of the Group and provide cross-selling opportunities between the Group and MFF. Details of the acquisition are set out in the Company’s announcement and circular dated 30 December 2005 and 13 January 2006, respectively.

During the year of 2005, the Group has liquidated its investment in the spandex business by disposing of its interest in Sangyang Spandex Co. Ltd. (“SY Spandex”). As SY Spandex had not commenced any operation, the disposal had negligible impact on the business operations of the Group. Details of the disposal are set out in the Company’s announcement and circular dated 25 April 2005 and 1 June 2005, respectively.

For the first half of 2006, the Group continues to engage in the design, manufacture and sale of toys and decorative gift items on an OEM and ODM basis and under the Group’s own brandnames KCARE and KITECH. During the period, the Group has experienced improved sales of its toy and gift products as compared with the same period in 2005. Such increase in sales is a result of the improvement of the global economy and the increased marketing effort of the Group. In addition, as MFF has become a subsidiary of the Group as a result of the acquisition of an additional 33% interest in MFF by the Group in December 2005, the consolidation of the results of MFF has also contributed to the increase in the revenue of the Group.

### **FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP**

The Directors are optimistic about the future performance of the Group for the full year as the global economy continues to flourish. Moving forward, the Group will continue to invest in research and development and to develop new series of products with add-on features and functions. The Group will continue to develop its business by expanding its sales team and distribution channels in North America, Europe and the PRC. In addition, the Group will apply part of the net proceeds from the Open Offer to explore other investment opportunities in the agricultural, energy and/or resources industries or other projects that have earning potentials to diversity its business.

By obtaining the Exploration License from Guoxin to Mingrunfeng, the Group can either transfer the Exploration License for a return of cash consideration or conduct exploration works at the Coal Mine and apply for relevant permits, licenses and approval to conduct mining activities at the Coal Mine both of which will potentially generate income for the Group. The Group intends to recruit professionals of experts with relevant experience and expertise in the natural and energy resources industry to facilitate the management of Mingrunfeng and to maximise the potential value of the Coal Mine.

---

## LETTER FROM THE BOARD

---

### GENERAL

Bright Asset is a company incorporated in the British Virgin Islands and is an indirect wholly-owned subsidiary of the Company.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, Jumplex, First Choice, Wise House and their respective ultimate beneficial owners and Mr. Yang are third parties independent of the Company and its connected persons.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Consideration Shares.

### IMPLICATIONS UNDER THE LISTING RULES

In accordance with Rule 14A of the Listing Rules, each of Mr. Yang and Wise House who will be interested in more than 10% equity interests in Mingrunfeng will become the connected persons of the Company after completion of the Capital Contribution. Any transactions as defined under Rule 14A.13 of the Listing Rules to be entered into between Mr. Yang or Wise House and the Group, such as in the event that Mr. Yang and Wise House become the lenders of loan facilities to Mingrunfeng, will constitute connected transactions on the part of the Company under the Listing Rules. In the event that such connected transactions occur, the Company will comply with the requirements under the Listing Rules and Shareholders' approval may be required.

The Agreements and the Transactions constitute a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules and will result in the diversion to exploration for natural resources of 10% or more of the consolidated total assets of the Group. Therefore, the Agreements and the Transactions are subject to approval by Shareholders at a general meeting under Rule 14.49 and Rule 18.07(2) of the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, no Shareholder is required to abstain from voting at the general meeting. The resolution will be voted on a show of hands unless a poll is demanded in accordance with article 66 of the articles of association of the Company which provision is summarised under the paragraph headed "Procedures for demanding a poll by Shareholders" in Appendix VI to this circular.

### EGM

Set out on pages 44 to 46 is a notice convening the EGM to be held at the Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 16 April 2007 at 2:30 p.m. at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Agreements and the Transactions.

A form of proxy for use at the EGM is enclosed. If you are not able to attend and/or vote at the EGM in person, you are strongly urged to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

---

## LETTER FROM THE BOARD

---

### RECOMMENDATIONS

The Directors are of the opinion that the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Agreements and the Transactions.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

By Order of the Board  
**Kiu Hung International Holdings Limited**  
**Hui Kee Fung**  
*Chairman*

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following information has been extracted from the audited consolidated financial statements of the Group for each of the three years ended 31 December 2005 and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006. Grant Thornton, being the Company's auditor, has not issued any qualified or modified opinion on the Group's financial statements for the three preceding financial years.

**Consolidated income statement**

	<b>Six months ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(unaudited)	(audited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	33,291	67,528	80,674	84,046
Cost of sales	(23,419)	(44,705)	(59,715)	(56,396)
<b>Gross profit</b>	9,872	22,823	20,959	27,650
Other income	1,131	6,631	3,286	4,127
Distribution costs	(4,546)	(6,601)	(11,889)	(7,445)
Administrative expenses	(9,090)	(17,709)	(19,361)	(18,326)
Other operating expenses	(248)	(771)	(1,626)	(7,434)
<b>Operating profit/(loss)</b>	(2,881)	4,373	(8,631)	(1,428)
Finance costs	(1,338)	(3,533)	(3,549)	(2,397)
Share of loss of a jointly controlled entity	–	(869)	(487)	–
Share of (loss)/profit of an associate	–	(335)	(65)	400
<b>Loss before income tax</b>	(4,219)	(364)	(12,732)	(3,425)
Income tax credit	(163)	323	790	169
<b>Loss for the year</b>	<u>(4,382)</u>	<u>(41)</u>	<u>(11,942)</u>	<u>(3,256)</u>
<b>Attributable to:</b>				
Equity holders of the Company	(4,382)	(41)	(11,888)	(3,254)
Minority interests	–	–	(54)	(2)
	<u>(4,382)</u>	<u>(41)</u>	<u>(11,942)</u>	<u>(3,256)</u>
	<i>HK cent</i>	<i>HK cent</i>	<i>HK cent</i>	<i>HK cent</i>
<b>Basic loss per share for loss attributable to the equity holders of the Company</b>	<u>(0.20)</u>	<u>(0.0019)</u>	<u>(0.54)</u>	<u>(0.15)</u>

## Consolidated Balance Sheet

	As at 30 June 2006 (unaudited) HK\$'000	As at 31 December 2005 (audited) HK\$'000	As at 31 December 2004 (audited) HK\$'000	As at 31 December 2003 (audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	62,941	66,369	60,318	72,653
Prepaid land lease payments	6,042	6,118	6,270	6,422
Investment property	400	400	400	4,700
Intangible assets	–	–	–	5,384
Interest in an associate	–	–	335	400
Interest in a jointly controlled entity	–	–	27,550	–
Amount due from a related company	–	2,619	–	–
Deferred tax assets	1,987	1,987	2,219	1,350
	<u>71,370</u>	<u>77,493</u>	<u>97,092</u>	<u>90,909</u>
<b>Current assets</b>				
Inventories	11,629	7,609	7,059	12,593
Trade and bills receivables	11,816	12,749	1,379	6,365
Prepayment, deposits and other receivables	1,370	1,796	2,282	3,291
Amount due from an associate	–	–	1,487	1,162
Amount due from a related company	5,703	5,513	–	–
Tax recoverable	139	126	28	–
Financial assets at fair value through profit or loss/Short term investments	286	286	306	11,043
Cash at banks and in hand	56,452	48,034	56,616	49,147
	<u>87,395</u>	<u>76,113</u>	<u>69,157</u>	<u>83,601</u>
<b>Current liabilities</b>				
Trade and bills payables	14,515	10,858	7,179	7,997
Other payables and accruals	6,700	5,655	7,585	6,882
Capital contribution payable to a jointly controlled entity	–	–	13,983	–
Provision for tax	351	263	3,546	14,839
Borrowings	35,593	30,650	30,246	20,781
	<u>57,159</u>	<u>47,426</u>	<u>62,539</u>	<u>50,499</u>
<b>Net current assets</b>	<u>30,236</u>	<u>28,687</u>	<u>6,618</u>	<u>33,102</u>
<b>Total assets less current liabilities</b>	<u>101,606</u>	<u>106,180</u>	<u>103,710</u>	<u>124,011</u>
<b>Non-current liabilities</b>				
Borrowings	2,002	2,251	2,819	13,162
Deferred tax liabilities	3,821	3,764	3,726	3,729
	<u>5,823</u>	<u>6,015</u>	<u>6,545</u>	<u>16,891</u>
<b>Net assets</b>	<u>95,783</u>	<u>100,165</u>	<u>97,165</u>	<u>107,120</u>
<b>EQUITY</b>				
<b>Equity attributable to Company's equity holders</b>				
Share capital	44,277	44,277	44,277	44,277
Reserves	51,506	55,888	52,888	62,789
Minority Interest	–	–	–	54
<b>Total equity</b>	<u>95,783</u>	<u>100,165</u>	<u>97,165</u>	<u>107,120</u>

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated income statements of the Company for each of the two years ended 31 December 2005, the audited consolidated balance sheets of the Company as at 31 December 2005 and 2004, the audited balance sheets of the Company as at 31 December 2005 and 2004, and the audited consolidated cash flow statements of the Company for each of the two years ended 31 December 2005, the audited consolidated statements of changes in equity of the Company for each of the two years ended 31 December 2005 together with accompanying notes extracted from the 2005 annual report and accounts of the Company:

**Consolidated income statement***For the year ended 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Revenue</b>	6	67,528	80,674
Cost of sales		<u>(44,705)</u>	<u>(59,715)</u>
<b>Gross profit</b>		22,823	20,959
Other income	6	6,631	3,286
Distribution costs		(6,601)	(11,889)
Administrative expenses		(17,709)	(19,361)
Other operating expenses		<u>(771)</u>	<u>(1,626)</u>
<b>Operating profit/(loss)</b>	7	4,373	(8,631)
Finance costs	8	(3,533)	(3,549)
Share of loss of a jointly controlled entity		(869)	(487)
Share of loss of an associate		<u>(335)</u>	<u>(65)</u>
<b>Loss before income tax</b>		(364)	(12,732)
Income tax credit	9	<u>323</u>	<u>790</u>
Loss for the year		<u><u>(41)</u></u>	<u><u>(11,942)</u></u>
<b>Attributable to:</b>			
Equity holders of the Company	10	(41)	(11,888)
Minority interests		<u>-</u>	<u>(54)</u>
		<u><u>(41)</u></u>	<u><u>(11,942)</u></u>
		<i>HK cent</i>	<i>HK cent</i>
<b>Basic loss per share for loss attributable to the equity holders of the Company</b>	11	<u><u>(0.0019)</u></u>	<u><u>(0.54)</u></u>



**Consolidated balance sheet***As at 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>13</i>	66,369	60,318
Prepaid land lease payments	<i>14</i>	6,118	6,270
Investment property	<i>15</i>	400	400
Interest in an associate	<i>17</i>	–	335
Interest in a jointly controlled entity	<i>18</i>	–	27,550
Amount due from a related company	<i>19</i>	2,619	–
Deferred tax assets	<i>30</i>	1,987	2,219
		<hr/>	<hr/>
		77,493	97,092
<b>Current assets</b>			
Inventories	<i>21</i>	7,609	7,059
Trade and bills receivables	<i>22</i>	12,749	1,379
Prepayment, deposits and other receivables	<i>22</i>	1,796	2,282
Amount due from an associate	<i>17</i>	–	1,487
Amount due from a related company	<i>19</i>	5,513	–
Tax recoverable		126	28
Financial assets at fair value through profit or loss/Short term investments	<i>23</i>	286	306
Cash at banks and in hand	<i>24</i>	48,034	56,616
		<hr/>	<hr/>
		76,113	69,157
<b>Current liabilities</b>			
Trade and bills payables	<i>25</i>	10,858	7,179
Other payables and accruals	<i>25</i>	5,655	7,585
Capital contribution payable to a jointly controlled entity	<i>18</i>	–	13,983
Provision for tax		263	3,546
Borrowings	<i>26</i>	30,650	30,246
		<hr/>	<hr/>
		47,426	62,539
<b>Net current assets</b>		<hr/>	<hr/>
		28,687	6,618
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		106,180	103,710
<b>Non-current liabilities</b>			
Borrowings	<i>26</i>	2,251	2,819
Deferred tax liabilities	<i>30</i>	3,764	3,726
		<hr/>	<hr/>
		6,015	6,545
<b>Net assets</b>		<hr/>	<hr/>
		<u>100,165</u>	<u>97,165</u>
<b>EQUITY</b>			
<b>Equity attributable to Company's equity holders</b>			
Share capital	<i>27</i>	44,277	44,277
Reserves	<i>29</i>	55,888	52,888
		<hr/>	<hr/>
<b>Total equity</b>		<u>100,165</u>	<u>97,165</u>

**Balance sheet***As at 31 December 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	<i>16</i>	100,261	125,261
<b>Current assets</b>			
Other receivables		–	330
Amount due from a subsidiary	<i>16</i>	46,743	47,519
Cash at banks		25	22
		<u>46,768</u>	<u>47,871</u>
<b>Current liabilities</b>			
Other payables and accruals		<u>56</u>	<u>50</u>
<b>Net current assets</b>		<u>46,712</u>	<u>47,821</u>
<b>Total assets less current liabilities</b>		<u><u>146,973</u></u>	<u><u>173,082</u></u>
<b>EQUITY</b>			
Share capital	<i>27</i>	44,277	44,277
Reserves	<i>29</i>	102,696	128,805
<b>Total equity</b>		<u><u>146,973</u></u>	<u><u>173,082</u></u>

**Consolidated cash flow statement***For the year ended 31 December 2005*

	<b>2005</b>	<b>2004</b>
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>		
Loss before income tax	(364)	(12,732)
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	6,199	6,717
Amortisation of prepaid land lease payments	152	152
Amortisation of goodwill	–	269
Impairment loss on goodwill	261	–
Amortisation of production and distribution rights	–	1,000
Impairment loss on production and distribution rights	–	3,667
Provision for slow moving inventories	3,131	2,191
Bad debts written-off	162	49
Revaluation surplus on leasehold land and buildings	(147)	(307)
Write off of property, plant and equipment	29	25
Loss on disposal of		
– investment properties	–	440
– other property, plant and equipment	–	121
Share of loss of an associate	335	65
Share of loss of a jointly controlled entity	869	487
Gains on disposal of subsidiaries	(2,740)	(69)
Loss on dissolution of a subsidiary	–	448
Interest expenses	2,309	2,379
Interest income	(344)	(242)
	<hr/>	<hr/>
Operating profit before working capital changes	9,852	4,660
(Increase)/Decrease in inventories	(3,681)	3,343
(Increase)/Decrease in trade and bills receivables	(10,724)	4,937
Decrease in prepayment, deposits and other receivables	486	1,009
Increase in amount due from an associate	(1,362)	(325)
(Decrease)/Increase in trust receipt loans	(1,193)	715
Increase/(Decrease) in trade and bills payables	3,679	(818)
Increase in other payables and accruals	166	841
	<hr/>	<hr/>
Cash (used in)/generated from operations	(2,777)	14,362
Interest paid	(2,279)	(2,285)
Interest paid in finance lease payments	(30)	(94)
Income tax refunded	37	–
Income tax paid	(96)	(113)
	<hr/>	<hr/>
<i>Net cash (used in)/generated from operating activities</i>	<u>(5,145)</u>	<u>11,870</u>

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(10,911)	(5,189)
Proceeds from disposal of investment properties		–	4,077
Proceeds from disposal of other property, plant and equipment		–	1,288
Decrease in financial assets at fair value through profit and loss/short term investments		20	10,737
Capital contribution to a jointly controlled entity		–	(14,054)
Acquisition of a subsidiary, net of cash acquired	<i>31(a)</i>	529	–
Proceeds from disposal of subsidiaries, net of cash disposed of	<i>31(b)</i>	2,041	91
Decrease in amount due from a related company		2,900	–
Interest received		344	242
		<hr/>	<hr/>
Net cash used in investing activities		(5,077)	(2,808)
<b>Cash flows from financing activities</b>			
New bank loans		28,368	15,888
Repayment of bank loans		(26,699)	(16,841)
Repayment of capital element of finance lease payables		(640)	(640)
		<hr/>	<hr/>
<i>Net cash generated from/(used in) financing activities</i>		1,029	(1,593)
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash at banks and in hand</b>		(9,193)	7,469
<b>Cash at banks and in hand at 1 January</b>		56,616	49,147
<b>Effect of foreign exchange rate changes, on cash held</b>		611	–
		<hr/>	<hr/>
<b>Cash at banks and in hand at 31 December</b>		<u>48,034</u>	<u>56,616</u>

**Consolidated statement of changes in equity***for the year ended 31 December 2005*

	Equity attributable to equity holders of the Company			Minority interests	Total equity
	Share capital	Other reserves	Retained profits		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004, as previously reported as equity	44,277	63,524	48,981	–	156,782
At 1 January 2004, as previously separately reported as minority interests	–	–	–	54	54
Effect of initial adoption of HKAS17 (note 2.7)	–	(53,250)	4,091	–	(49,159)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 (note 2.7)	–	(837)	280	–	(557)
At 1 January 2004, as restated	44,277	9,437	53,352	54	107,120
Revaluation surplus on properties	–	2,003	–	–	2,003
Appropriation of statutory surplus reserve	–	133	(133)	–	–
Deferred tax liability arising on revaluation of properties	–	(16)	–	–	(16)
Net income/(expense) recognised directly in equity	–	2,120	(133)	–	1,987
Loss for the year	–	–	(11,888)	(54)	(11,942)
Total recognised income and expense for the year	–	2,120	(12,021)	(54)	(9,955)
<b>Balance at 31 December 2004, as restated</b>	44,277	11,557	41,331	–	97,165
Balance at 31 December 2004, as previously reported	44,277	66,635	35,576	–	146,488
Effect of initial adoption of HKAS17 (note 2.7)	–	(54,241)	5,475	–	(48,766)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 (note 2.7)	–	(837)	280	–	(557)

	Equity attributable to equity holders of the Company			Minority interests	Total equity
	Share capital	Other reserves	Retained profits		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004 and 1 January 2005, as restated	44,277	11,557	41,331	–	97,165
Revaluation surplus on properties	–	1,841	–	–	1,841
Appropriation of statutory surplus reserve	–	386	(386)	–	–
Deferred tax liability arising on revaluation of properties	–	(202)	–	–	(202)
Translation adjustments	–	1,402	–	–	1,402
Reserve transferred to retained profits upon disposal of a subsidiary	–	(389)	389	–	–
Net income recognised directly in equity	–	3,038	3	–	3,041
Loss for the year	–	–	(41)	–	(41)
Total recognised income and expense for the year	–	3,038	(38)	–	3,000
<b>Balance at 31 December 2005</b>	<b>44,277</b>	<b>14,595</b>	<b>41,293</b>	<b>–</b>	<b>100,165</b>

Details of other reserves are set out in note 29 to the financial statements.

**Notes to the financial statements**

*For the year ended 31 December 2005*

**1. GENERAL INFORMATION**

Kiu Hung International Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company’s registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands and its principal place of business is 14/F, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of a wide range of toys and decorative gift items. Details of the principal activities of the Company’s subsidiaries are set out in note 16. There were no significant changes in the nature of the Group’s principal activities during the year.

The financial statements on pages 22 to 88 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 24 April 2006.

**2. ADOPTION OF NEW/REVISED HKFRS**

From 1 January 2005, the Group has adopted the following new/revised standards and interpretations of HKFRS which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Tax
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effect of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets

HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HK(SIC) Int-12	Consolidation – Special Purpose Entities
HK(SIC) Int-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

### **2.1 Adoption of HKAS 1**

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

### **2.2 Adoption of HKAS 17**

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at valuation less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and building elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the consolidated income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively. Where the land and buildings elements cannot be allocated reliably, the entire lease payments continue to be treated as finance leases and included in property, plant and equipment.

### **2.3 Adoption of HKAS 32 and HKAS 39**

HKAS 32 requires all disclosure and presentation rules regarding financial instruments to be applied retrospectively. HKAS 39 generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

Prior to the adoption of HKAS 39, the Group has investments in listed equity securities held for trading purposes and are stated at fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Gains or losses arising from changes in the fair value of a security are credited or charged to the consolidated income statement in the period in which they arise. Any gains or losses on disposal of a security are accounted for in the consolidated income statement as they arise.

There are no material adjustments arising from the adoption of HKAS 39 for trading securities apart from reclassification of trading securities from short term investments to financial assets at fair value through profit or loss on 1 January 2005.



## 2.4 Adoption of HKAS 40 and HK (SIC) Int-21

In prior years, the Group stated its investment properties at valuation and recorded the increase in valuation in the investment properties revaluation reserve. Decreases in the valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are expensed in the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement, the increase that subsequently arose was credited to the consolidated income statement to the extent of the decrease previously charged with the remaining part of the increase credited to the investment properties revaluation reserve. Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the lease.

The adoption of HKAS 40 has led to the changes in the fair value of investment properties being recorded in the consolidated income statement and the investment properties are no longer subject to depreciation where the unexpired periods of the lease are 20 years or less.

According to the transitional provisions of HKAS 40, as the Group has previously disclosed publicly the fair value of the investment properties in prior years, the Group adjusted the opening balance of retained earnings for the earliest period presented and restated the comparative figures accordingly.

## 2.5 Other standards adopted

The adoption of other new or revised standards did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

## 2.6 The effect of changes in the accounting policies on the consolidated income statement is summarised below:

	Effect of adopting			Total HK\$'000
	HKAS 17 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKAS 40 & HK(SIC) Int 21 HK\$'000	
<b>Year ended 31 December 2005</b>				
<b>Decrease/(Increase) in loss for the year</b>				
Decrease in depreciation and amortisation	1,413	–	–	1,413
Decrease in gains on disposal of subsidiaries	–	(868)	–	(868)
Total decrease/(increase) in loss for the year	<u>1,413</u>	<u>(868)</u>	<u>–</u>	<u>545</u>
Decrease/(Increase) in basic loss per share (HK cent)	<u>0.06</u>	<u>(0.04)</u>	<u>–</u>	<u>0.02</u>

	Effect of adopting			Total <i>HK\$'000</i>
		HKAS 40 & HK(SIC)		
	HKAS 17 <i>HK\$'000</i>	HKAS 32 & HKAS 39 <i>HK\$'000</i>	Int 21 <i>HK\$'000</i>	
<b>Year ended 31 December 2004</b>				
<b>Decrease in loss for the year</b>				
Decrease in depreciation and amortisation	1,384	–	–	1,384
Total decrease in loss for the year	<u>1,384</u>	<u>–</u>	<u>–</u>	<u>1,384</u>
Decrease in basic loss per share (HK cent)	<u>0.06</u>	<u>–</u>	<u>–</u>	<u>0.06</u>

2.7 The effect of changes in the accounting policies on the consolidated balance sheet is summarised below:

	Effect of adopting			Total <i>HK\$'000</i>
	HKAS 17 <i>HK\$'000</i>	HKAS 32 & HKAS 39 <i>HK\$'000</i>	HKAS 40 & HK(SIC) Int 21 <i>HK\$'000</i>	
<b>At 1 January 2004 (Equity only)</b>				
<b>Increase/(Decrease) in equity</b>				
Assets revaluation reserve	(53,250)	–	(557)	(53,807)
Investment property revaluation reserve	–	–	(280)	(280)
Retained profits	4,091	–	280	4,371
<b>At 31 December 2004</b>				
<b>Increase/(Decrease) in assets</b>				
Property, plant and equipment	(70,436)	–	(400)	(70,836)
Prepaid land lease payments	6,270	–	–	6,270
Investment property	–	–	400	400
<b>Increase/(Decrease) in liabilities</b>				
Deferred tax	(15,400)	–	557	(14,843)
<b>Increase/(Decrease) in equity</b>				
Assets revaluation reserve	(54,241)	–	(557)	(54,798)
Investment property revaluation reserve	–	–	(280)	(280)
Retained profits	5,475	–	280	5,755
<b>At 31 December 2005</b>				
<b>Increase/(Decrease) in assets</b>				
Property, plant and equipment	(68,871)	–	(400)	(69,271)
Prepaid land lease payments	6,118	–	–	6,118
Amount due from a related company	–	(868)	–	(868)
Investment property	–	–	400	400
<b>Increase/(Decrease) in liabilities</b>				
Deferred tax	(15,400)	–	557	(14,843)
<b>Increase/(decrease) in equity</b>				
Assets revaluation reserve	(54,241)	–	(557)	(54,798)
Investment property revaluation reserve	–	–	(280)	(280)
Retained profits	6,888	(868)	280	6,300

## 2.8 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations of HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments – Disclosures <sup>1</sup>
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease <sup>2</sup>
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and certain financial assets. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material inter-company transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the sale and the Group's share of its net assets together with any goodwill or negative goodwill.

### 3.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets in the consolidated balance sheet.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

### 3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. Investment in associates is initially recognised at cost and subsequently accounted for using the equity method.

The Group's share of the post-acquisition results is included in the consolidated income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 3.5 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decision relating to the activity require the unanimous consent of the venturers.

The Group's share of the post-acquisition results of jointly-controlled entities is included in the consolidated income statement. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses.

### 3.6 Foreign currencies

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) *Group companies*

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- (2) income and expenses for each income statement are translated at average exchange rates.

Any differences arising from this procedure are charged or credited to the exchange fluctuation reserve in equity.

### 3.7 Income and expense recognition

Revenue comprises the fair value for the sale of goods, net of rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised upon transfer of risk and rewards to the customer and collectibility of the related receivables is reasonably assured.

Interest income is recognised on a time-proportion basis using the effective interest method.

Operating expenses are recognised in the income statement upon utilisation of the services.

### 3.8 Borrowing costs

All borrowing costs are expensed as incurred.

### 3.9 Research and development activities

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the expected commercial lives of the underlying products, subject to a maximum period of five years, commencing from the date when the products are put into commercial production.

All other development costs are expensed as incurred.

### 3.10 Property, plant and equipment

Leasehold land and buildings are recognised at fair value, based on their use at the date of revaluation less any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers once every year. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of leasehold land and buildings is credited to the assets revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.12. To the extent that any decrease has previously been recognised in consolidated income statement, a revaluation increase is credited to consolidated income statement with the remaining part of the increase dealt with in the assets revaluation reserve. A decrease in net carrying amount of leasehold land and buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the asset and the remaining decrease recognised in consolidated income statement.

Depreciation on property, plant and equipment is provided to write off the cost or revalued amounts less their residual values, if any, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	2%-5%
Buildings	5%
Leasehold improvements	10%
Plant and machinery	10%
Moulds	10-20%
Furniture, fixtures and equipment	10-20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement. Any revaluation surplus remaining in equity is transferred to retained profits on the disposal of leasehold land and buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

### **3.11 Investment property**

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

### **3.12 Impairment of assets**

Goodwill, property, plant and equipment, prepaid land lease payment, investment property and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard (refer to note 3.10 for details).

The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **3.13 Goodwill**

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets and liabilities including contingent liabilities of the acquired subsidiaries at the date of acquisition. Goodwill arising on acquisition of subsidiaries is initially recognised in the consolidated balance sheet as an asset at cost and subsequently measured at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold.



### 3.14 Leases (as the lessee)

#### (a) Finance leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the present value of the lease payments plus incidental payment, if any, to be borne by the lessee. A corresponding amount is recognised as a finance lease liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreement corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

#### (b) Operating leases

- (i) Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.
- (ii) Prepaid land lease payments are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

### 3.15 Financial assets

In previous years, the Group classified its investments in securities as trading securities which were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the consolidated income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the consolidated income statement as they arose.

From 1 January 2005 onwards, the Group classifies its financial assets into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All regular way purchases or sales of financial assets are recognised on the trade date (i.e., the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All financial assets that are not classified as fair value through profit or loss are initially recognised at fair value, plus transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The accounting policies adopted in respect of each category of financial assets are set out below:

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables (including trade and other receivables, amount due from a related company, cash at banks and in hand and amounts due from a subsidiary of the Company) are subsequently measured at amortised cost using the effective interest method, less impairment losses. An impairment loss is recognised in consolidated income statement when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value, with changes in value recognised in equity. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the consolidated income statement even though the financial asset has not been derecognised. Impairment losses previously recognised in the consolidated income statement on equity instruments will not reverse in subsequent periods. Impairment losses previously recognised in consolidated income statement on debt securities are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

(iv) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in consolidated income statement.

### **3.16 Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### **3.17 Income tax**

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Most changes in deferred tax is charged or credited to the consolidated income statement. Only changes in deferred tax assets and liabilities that relate to a change in value of assets and liabilities that is charged directly to equity are charged or credited directly to equity.

### **3.18 Retirement benefit schemes and short term employee benefits**

(i) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) *Retirement benefits schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance (the “MPFS Ordinance”), for those employees who are eligible to participate in the scheme. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the “Pension Scheme”) for those employees who were eligible to participate in this scheme. This Pension Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Pension Scheme before his/her interest in the Group’s employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer’s contributions. The Group has obtained a certificate of exemption issued by the Mandatory Provident Fund Scheme Authority pursuant to Section 5 of the MPFS Ordinance which allows exemption from the operation of all provisions of the MPFS Ordinance. Certain employees of the Group are still participating in the Pension Scheme notwithstanding that the MPF Scheme has been operated since 1 December 2000.

The employees of the Group’s subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme (the “Scheme”). The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the Scheme.

The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above.

### **3.19 Financial liabilities**

The Group’s financial liabilities include bank and trust receipt loans, finance lease liabilities and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

*Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### *Trade payables*

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method, less settlement payment.

### **3.20 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### **3.21 Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Business segment assets consist primarily of, property, plant and equipment, inventories, amount due from a related company, receivables and operating cash. Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

### **3.22 Related parties**

A party is considered to be related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;
- (b) the party is an associate of the Company/Group;
- (c) the party is a member of the key management personnel of the Company or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

- (f) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed belows:

##### **Leasehold land and buildings and Investment property**

The leasehold land and buildings and investment property of the Group were stated at fair value in accordance with the accounting policy state in note 3.10 and 3.11 respectively. The fair value of the leasehold land and buildings and investment property are determined by an independently qualified professional surveyor, as set out in note 13 and note 15 respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

#### 5. SEGMENT INFORMATION

There were no intersegment sales and transfers between segments.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Summary details of business segments are as follows:

- (i) the toys segment manufactures and trades traditional toys, fashionable toys such as cartoon character products, electronic stuffed toys, educational toys and model kits; and
- (ii) the decorative gift items segment manufactures and trades water globes, snow domes, figurines and functional household products such as stocking hangers, pins, magnets, pencil toppers, pencil sharpeners and photo frames.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. Assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers between segments.

**(a) Business segments**

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Toys		Decorative gift items		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>31,838</u>	<u>39,741</u>	<u>35,690</u>	<u>40,933</u>	<u>67,528</u>	<u>80,674</u>
Segment results	<u>(645)</u>	<u>(5,545)</u>	<u>(723)</u>	<u>(2,171)</u>	(1,368)	(7,716)
Interest, rental income and unallocated gains					6,631	3,286
Unallocated expenses					(890)	(4,201)
Operating profit/( loss)					4,373	(8,631)
Finance costs					(3,533)	(3,549)
Share of loss of a jointly controlled entity					(869)	(487)
Share of loss of an associate					(335)	(65)
Loss before income tax					(364)	(12,732)
Income tax credit					323	790
Loss for the year					<u>(41)</u>	<u>(11,942)</u>
Segment assets	44,021	37,641	76,446	83,399	120,467	121,040
Unallocated assets					33,139	45,209
Total assets					<u>153,606</u>	<u>166,249</u>
Segment liabilities	17,274	6,779	10,899	19,615	28,173	26,394
Unallocated liabilities					25,268	42,690
Total liabilities					<u>53,441</u>	<u>69,084</u>
Other segment information:						
Depreciation and amortisation	1,899	3,685	3,624	3,375	5,523	7,060
Unallocated amounts					828	1,078
					<u>6,351</u>	<u>8,138</u>
Impairment loss on goodwill	-	-	-	-	261	-
Other non-cash expenses	6	4,254	-	1,654	6	5,908
Unallocated amounts					205	1,375
					<u>211</u>	<u>7,283</u>
Capital expenditure	492	162	10,419	5,027	<u>10,911</u>	<u>5,189</u>



**(b) Geographical segments**

The following tables present revenue, results and certain assets and expenditure information for the Group's geographical segments.

	PRC (including Hong Kong)		North America		European Union		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	3,005	15,073	48,611	46,703	13,161	14,336	2,751	4,562	67,528	80,674
Segment results	55	2,475	1,012	(7,878)	260	(1,824)	41	(489)	1,368	(7,716)
Other segment information:										
Segment assets	143,232	165,294	9,391	836	439	102	544	17	153,606	166,249
Capital expenditure	10,911	5,189	-	-	-	-	-	-	10,911	5,189

**6. REVENUE AND OTHER INCOME****(a) Revenue**

Revenue, which is also turnover, represents total invoiced value of goods supplied.

**(b) Other income**

	Group	
	2005 HK\$'000	2004 HK\$'000
Bank interest income	244	242
Other interest income	100	-
Dividend income from listed investments	-	59
Exchange gains, net	53	204
Rental income, net	25	245
Gains on disposal of subsidiaries ( <i>note 31(b)</i> )	2,740	69
Sale of moulds	530	748
Surplus on revaluation of leasehold land and buildings (reversing revaluation decrease previously charged to consolidated income statement)	147	307
Others	2,792	1,412
	<u>6,631</u>	<u>3,286</u>

## 7. OPERATING PROFIT/(LOSS)

	<b>2005</b>	<b>Restated</b>
	<i>HK\$'000</i>	<i>2004</i>
		<i>HK\$'000</i>
Operating profit/(loss) is arrived at after charging:		
Impairment loss on goodwill (included in other operating expenses)	261	–
Amortisation of goodwill (included in other operating expenses)	–	269
Amortisation of production and distribution rights (included in distribution costs)	–	1,000
Auditors' remuneration		
– current year	460	460
– overprovision in prior years	(13)	–
	<u>447</u>	<u>460</u>
Bad debts written-off	162	49
Cost of inventories recognised as expenses	40,174	57,274
Depreciation and amortisation:		
– owned property, plant and equipment	6,060	6,303
– leased property, plant and equipment	139	414
– prepaid land lease payments	152	152
	<u>6,351</u>	<u>6,869</u>
Impairment loss on production and distribution rights (included in distribution costs)	–	3,667
Provision for slow-moving inventories	3,131	2,191
Loss on disposal of		
– investment properties	–	440
– other property, plant and equipment	–	121
	<u>–</u>	<u>561</u>
Loss on dissolution of a subsidiary (included in other operating expenses)	–	448
Operating lease charges on land and buildings	281	709
Realised losses on disposal of short term loans	–	148
Changes in fair value of financial assets at fair value through profit and loss/short term investments	20	194
Research and development costs – current year expenditure	1,401	1,634
Staff costs		
– Wages and salaries	11,670	12,734
– Pension costs – retirement benefits schemes contributions for staff and directors	818	858
– Directors' remuneration	3,360	3,370
	<u>15,848</u>	<u>16,962</u>
Write off of property, plant and equipment	<u>29</u>	<u>25</u>

## 8. FINANCE COSTS

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Interest charges on:		
Bank loans and trust receipt loans		
wholly repayable within five years	2,139	2,154
Bank loans not wholly repayable within five years	140	131
Finance charges on finance leases	30	94
Interest on capital contribution payable to a jointly controlled entity	1,224	1,170
	<u>3,533</u>	<u>3,549</u>

## 9. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Current tax – Hong Kong		
Tax for the year	73	72
Current tax – overseas		
Tax for the year	–	26
Over provision in respect of prior years	(306)	–
	<u>(233)</u>	<u>98</u>
Deferred tax		
Current year ( <i>note 30</i> )	(90)	(888)
Total income tax credit	<u>(323)</u>	<u>(790)</u>

Reconciliation between tax credit and accounting loss at applicable tax rates:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Loss before income tax	(364)	(12,732)
Tax calculated at the rate of 17.5% (2004: 17.5%)	(64)	(2,228)
Tax calculated at the rates applicable to other jurisdictions	8	573
Tax effect of non-deductible expenses	352	2,802
Tax effect of non-taxable revenue	(88)	(1,936)
Tax effect of utilisation of tax losses not previously recognised	(225)	(1)
Over provision in prior years	(306)	–
Actual tax credit	<u>(323)</u>	<u>(790)</u>

In addition to the amount credited to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 29).

Fujian Kcare Gift toys Co., Ltd. (福建奇嘉禮品玩具有限公司)("Fujian Kcare"), the Group's subsidiary established and operating in the PRC, was exempt from PRC enterprise income tax for the first two profitable years of operations, and thereafter is eligible for a 50% relief from PRC enterprise income tax for the following three years under the Income Tax Law of the PRC. For the year ended 31 December 2005, no PRC enterprise income tax has been provided on the estimated assessable profit generated by Fujian Kcare as the subsidiary had the second profitable year of operation. No provision for the PRC enterprise income tax has been made for Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian (福建莆田市僑雄輕工有限公司), Qiao Xiong Toys Co., Ltd. Putian Fujian (福建省莆田市僑雄玩具有限公司) and Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司) (formerly known as Fujian Putian Jiaxiong Toys Co., Ltd. 福建省莆田市嘉雄玩具有限公司) as these subsidiaries did not derive any assessable income during the year.

#### 10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company dealt with in the financial statements of the Company for the year ended 31 December 2005 was approximately HK\$26,109,000 (2004: HK\$1,853,000).

#### 11. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holder of the Company for the year of HK\$41,000 (2004 restated: HK\$11,888,000) and the weighted average of 2,213,820,000 (2004: 2,213,820,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2005 and 2004 has not been shown as there is no dilutive potential ordinary share.

#### 12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

##### (a) Employee benefit expense (including directors' emoluments)

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Wages and salaries	15,030	16,104
Pension costs – defined contribution plans	818	858
	<u>15,848</u>	<u>16,962</u>

## (b) Directors' and senior management's remuneration

*Directors' emoluments*

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Contribution to defined contribution plan <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>For the year ended 31 December 2005</b>				
<i>Executive directors</i>				
Mr. Hui Kee Fung	–	1,464	147	1,611
Mr. Hui Ki Yau	–	1,272	127	1,399
Ms. Hui Hung Tan, Teresa	–	624	62	686
<i>Independent non-executive directors</i>				
Mr. Kung King Ching, Conrad	–	–	–	–
Dr. Lin Al Yue	–	–	–	–
Mr. Peng Guanghui	20	–	–	20
Mr. Sy Chin Mong, Stephen	–	–	–	–
	<u>20</u>	<u>3,360</u>	<u>336</u>	<u>3,716</u>
<b>For the year ended 31 December 2004</b>				
<i>Executive directors</i>				
Mr. Hui Kee Fung	–	1,468	140	1,608
Mr. Hui Ki Yau	–	1,275	122	1,397
Ms. Hui Hung Tan, Teresa	–	627	60	687
<i>Independent non-executive directors</i>				
Dr. Lin Al Yue	–	–	–	–
Mr. Peng Guanghui	–	–	–	–
Mr. Sy Chin Mong, Stephen	–	–	–	–
	<u>–</u>	<u>3,370</u>	<u>322</u>	<u>3,692</u>

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year ended 31 December 2005 (2004: Nil).

During the year, there were no emoluments paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

*Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year included three (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Basic salaries and other allowances	1,012	995
Contribution to pensions schemes	76	90
	<u>1,088</u>	<u>1,085</u>

During the year, no emoluments were paid to these two highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

The emoluments of the two highest paid individuals fell within the following bands:

<b>Emolument band</b>	<b>Number of highest paid individuals</b>	
	<b>2005</b>	<b>2004</b>
HK\$Nil – HK\$1,000,000	<u>2</u>	<u>2</u>

## 13. PROPERTY, PLANT AND EQUIPMENT

## Group

	Leasehold land and buildings <i>HK\$'000</i> <i>(Note (a))</i>	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004								
Cost or valuation	19,691	25,585	2,080	18,657	20,177	3,516	3,414	93,120
Accumulated depreciation	-	-	(1,584)	(8,375)	(6,003)	(2,286)	(2,219)	(20,467)
Net book amount	<u>19,691</u>	<u>25,585</u>	<u>496</u>	<u>10,282</u>	<u>14,174</u>	<u>1,230</u>	<u>1,195</u>	<u>72,653</u>
Year ended 31 December 2004								
Opening net book amount	19,691	25,585	496	10,282	14,174	1,230	1,195	72,653
Additions	-	-	13	50	4,888	238	-	5,189
Revaluation surplus credited to equity	551	1,452	-	-	-	-	-	2,003
Revaluation surplus credited to the consolidated income statement	307	-	-	-	-	-	-	307
Disposal/write off	(1,340)	-	-	-	-	(23)	(2)	(1,365)
Disposal of a subsidiary	-	-	-	(5,594)	(6,158)	-	-	(11,752)
Depreciation	(693)	(1,310)	(161)	(785)	(2,915)	(497)	(356)	(6,717)
Closing net book amount	<u>18,516</u>	<u>25,727</u>	<u>348</u>	<u>3,953</u>	<u>9,989</u>	<u>948</u>	<u>837</u>	<u>60,318</u>
At 31 December 2004								
Cost or valuation	18,516	25,727	2,093	9,936	16,746	3,581	3,386	79,985
Accumulated depreciation	-	-	(1,745)	(5,983)	(6,757)	(2,633)	(2,549)	(19,667)
Net book amount	<u>18,516</u>	<u>25,727</u>	<u>348</u>	<u>3,953</u>	<u>9,989</u>	<u>948</u>	<u>837</u>	<u>60,318</u>

## Group

	Leasehold land and buildings HK\$'000 (Note (a))	Buildings	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Year ended 31 December 2005</b>								
Opening net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
Additions	-	-	-	153	10,356	402	-	10,911
Arising from acquisition of a subsidiary	-	-	-	-	1,577	3	-	1,580
Revaluation surplus credited to equity	1,312	529	-	-	-	-	-	1,841
Revaluation surplus credited to consolidated income statement	147	-	-	-	-	-	-	147
Write off	-	-	-	(7)	-	(22)	-	(29)
Disposal of subsidiaries	-	-	-	-	(2,991)	-	-	(2,991)
Depreciation	(686)	(1,311)	(85)	(774)	(2,610)	(425)	(308)	(6,199)
Exchange differences	71	255	-	51	384	25	5	791
Closing net book amount	<u>19,360</u>	<u>25,200</u>	<u>263</u>	<u>3,376</u>	<u>16,705</u>	<u>931</u>	<u>534</u>	<u>66,369</u>
At 31 December 2005								
Cost or valuation	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651
Accumulated depreciation	-	-	(1,830)	(6,822)	(8,664)	(3,065)	(2,901)	(23,282)
Net book amount	<u>19,360</u>	<u>25,200</u>	<u>263</u>	<u>3,376</u>	<u>16,705</u>	<u>931</u>	<u>534</u>	<u>66,369</u>
<b>At cost</b>	-	-	2,093	10,198	25,369	3,996	3,435	45,091
<b>At professional valuation</b>	19,360	25,200	-	-	-	-	-	44,560
<b>At 31 December 2005</b>	<u>19,360</u>	<u>25,200</u>	<u>2,093</u>	<u>10,198</u>	<u>25,369</u>	<u>3,996</u>	<u>3,435</u>	<u>89,651</u>
At cost	-	-	2,093	9,936	16,746	3,581	3,386	35,742
At professional valuation	18,516	25,727	-	-	-	-	-	44,243
At 31 December 2004	<u>18,516</u>	<u>25,727</u>	<u>2,093</u>	<u>9,936</u>	<u>16,746</u>	<u>3,581</u>	<u>3,386</u>	<u>79,985</u>

*Note (a):* The land and buildings elements cannot be allocated reliably, and therefore the entire lease payments for these leasehold land and buildings were treated as finance leases and included in the Group's property, plant and equipment at valuation.



An analysis of the cost or valuation of the Group's buildings and leasehold land and buildings at the balance sheet date is as follows:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term leases held in Hong Kong	10,450	9,350
Medium term leases held outside Hong Kong	34,110	34,893
	44,560	44,243
	44,560	44,243

Pursuant to a sale and purchase agreement (the "S&P Agreement") entered into between the Group and an independent third party during 2001, the Group acquired leasehold land and buildings for retail shop purposes in the PRC (the "Property") with carrying value of approximately HK\$6,470,000 at 31 December 2005 (2004: HK\$6,650,000).

The Group is in the process of applying for the ownership certificate for the Property. As confirmed by a legal opinion issued by the Group's PRC lawyer, the S&P Agreement is legally valid under the laws of the PRC and there is no legal barrier or otherwise for the Group to obtain ownership certificate for the Property from the relevant PRC authority.

At 31 December 2005, certain of the Group's buildings and leasehold land and buildings with aggregate carrying values of approximately HK\$10,200,000 and HK\$9,300,000 respectively (2004: HK\$25,727,000 and HK\$8,300,000 respectively) were pledged to secure general banking facilities granted to the Group as detailed in note 26.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery, furniture, fixtures and equipment, and motor vehicles at 31 December 2005, amounted to HK\$482,000 (2004: HK\$549,000), HK\$39,000 (2004: HK\$45,000) and HK\$189,000 (2004: HK\$818,000) respectively.

The leasehold land and buildings situated in Hong Kong for office purposes and outside Hong Kong for office and retail shop purposes were valued as at 31 December 2005 at HK\$19,360,000 (2004: HK\$18,516,000) on an open market value basis by Castores Magi (Hong Kong) Limited ("Castores"), an independent firm of professional valuers. The buildings situated outside Hong Kong for the Group's production facilities were valued by Castores as at 31 December 2005 at HK\$25,200,000 (2004: HK\$25,727,000) on a depreciated replacement cost basis.

Had the Group's buildings and leasehold land and buildings been stated at cost less accumulated depreciation and amortisation, they would have been included in the financial statements at approximately HK\$17,782,000 (2004: HK\$18,809,000) and HK\$14,119,000 (2004: HK\$15,050,000) respectively.

**14. PREPAID LAND LEASE PAYMENTS**

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>6,118</u>	<u>6,270</u>

At 31 December 2005, nil (2004: carrying value of approximately HK\$3,935,000) of the Group's land use right was pledged to secure general banking facilities granted to the Group as detailed in note 26.

The Company did not have any prepaid land lease payments as at 31 December 2005 (2004: Nil).

**15. INVESTMENT PROPERTY**

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount as at 1 January and 31 December	<u>400</u>	<u>400</u>

The investment property of the Group is situated in Hong Kong and held under medium term lease.

The investment property was valued on an open market value basis by Castores Magi (Hong Kong) Limited at 31 December 2005. The investment property held in Hong Kong represents a car parking space L12 on 1/F of Wing Kin Industrial Building, 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong. The investment property is leased to a third party under operating lease arrangements, further details of which are included in note 32.

The Group's property interests held under operating leases to earn rentals are measured by using the fair value model and are classified and accounted for as investment property.

**16. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY**

	<b>Company</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments – unlisted shares, at cost	125,261	125,261
Less: Provision for impairment	<u>(25,000)</u>	<u>–</u>
	<u>100,261</u>	<u>125,261</u>
Amount due from a subsidiary	<u>46,743</u>	<u>47,519</u>

The amount due from a subsidiary is unsecured, interest-free and repayable on demand. Accordingly, the amount is classified as current assets.

Particulars of the principal subsidiaries as at 31 December 2005 are as follows:

Name	Country/ Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	50,500 ordinary shares of US\$1 each	100%	–	Investment holding	Hong Kong
Kiu Hung International Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each <i>(Note (a))</i>	–	100%	Investment holding	Hong Kong
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each <i>(Note (a))</i>	–	100%	Investment holding	Hong Kong
Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian 福建莆田市僑雄輕工有限公司 <i>(Note (b))</i>	PRC	US\$5,000,000	–	100%	Property holding	PRC
Qiao Xiong Toys Co., Ltd. Putian Fujian 福建省莆田市僑雄玩具有限公司 <i>(Note (c))</i>	PRC	HK\$10,000,000	–	100%	Manufacture of toys	PRC
Fujian Kcare Gift toys Co., Ltd. 福建奇嘉禮品玩具有限公司 <i>(Note (d))</i>	PRC	Renminbi ("RMB") 10,000,000	–	100%	Manufacture and trading of decorative gift items and toys	PRC
Newgary Development Limited	Hong Kong	2 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each <i>(Note (a))</i>	–	100%	Property holding	Hong Kong
Top Point Investments Limited	BVI	100 ordinary shares of US\$1 each	–	100%	Investment in securities	Hong Kong
Kiu Hung Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment and property holding	Hong Kong

Name	Country/ Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	-	100%	Manufacture and trading of decorative gift items and toys	Hong Kong
Ka Hung Toys Co., Ltd. Fujian 福建嘉雄玩具有限公司 (formerly known as Fujian Putian Jiaxiong Toys Co., Ltd. 福建省莆田市嘉雄玩具 有限公司)(Note (e))	PRC	RMB10,000,000	-	100%	Manufacture and trading of decorative gift items and toys	PRC
Miracles For Fun (HK) Limited	Hong Kong	100 ordinary shares of HK\$100 each	-	63%	Trading of toys and decorative gift items	Hong Kong

*Notes:*

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).
- (b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US\$5,000,000 which has been fully paid up.
- (c) Qiao Xiong Toys Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1996. Its registered capital is HK\$10,000,000 which has been fully paid up.
- (d) Fujian Kcare Gift toys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.
- (e) Ka Hung Toys Co., Ltd. Fujian is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 12 November 2002. Its registered capital is RMB10,000,000 which has been fully paid up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 17. INTEREST IN AN ASSOCIATE

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	1
Share of post-acquisition result of an associate	–	334
	<u>–</u>	<u>335</u>

Movements in the interest in an associate are as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January	335	400
Share of result of an associate		
– Loss before income tax	(335)	(65)
Balance at 31 December	<u>–</u>	<u>335</u>
Amount due from an associate	<u>–</u>	<u>1,487</u>

The amount due from an associate is unsecured, interest free and with no fixed terms of repayment.

The summarised financial information in respect of the Group's associate is set out below:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	–	3,320
Total liabilities	–	(2,203)
Net assets	–	1,117
Revenue	<u>–</u>	<u>12,583</u>
Loss for the year	<u>–</u>	<u>(135)</u>
Group's share of loss of an associate for the year	<u>(335)</u>	<u>(65)</u>

The Group acquired further 33% of issued share capital of the associate, Miracles for Fun (HK) Limited ("MFF"), during the year. Details of the acquisition is set out in note 31(a).

A condensed summary of the financial information of the Group's associate is not presented for 2005 because MFF has become a non-wholly owned subsidiary for the Group during the year.

**18. INTEREST IN A JOINTLY CONTROLLED ENTITY/CAPITAL CONTRIBUTION PAYABLE TO A JOINTLY CONTROLLED ENTITY**

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	28,037
Share of post-acquisition result of a jointly controlled entity	–	(487)
	<u>–</u>	<u>(487)</u>
Interest in a jointly controlled entity	–	27,550
	<u>–</u>	<u>27,550</u>
Capital contribution payable to a jointly controlled entity	–	13,983
	<u>–</u>	<u>13,983</u>

The capital contribution payable to a jointly-controlled entity represented outstanding capital contribution to the jointly controlled entity, Sangyang Spandex Co. Ltd. (“Sangyang Spandex”), with payment due date on 12 July 2004. Such outstanding capital contribution was unsecured, but borne interest at the rate of 18.25% per annum.

Pursuant to the agreement dated 19 April 2005, Sangyang Spandex was disposed of by the Group to Kiu Hung Holdings Limited, a company beneficially owned by the three executive directors of the Company (“the Disposal”).

Details of the Disposal are set out in note 36(ii) under connected and related party transactions.

Sangyang Spandex is principally engaged in the production, research and development and sale of spandex in the PRC. Sangyang Spandex has not commenced any operation up to the date of the Disposal.

The following is a condensed summary of financial information of the Group’s jointly controlled entity:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	–	17,655
Current assets	–	19,471
	<u>–</u>	<u>19,471</u>
Net assets	–	37,126
	<u>–</u>	<u>37,126</u>
Revenue	–	–
Loss after income tax	–	(1,623)
	<u>–</u>	<u>(1,623)</u>
Group’s share of loss of a jointly controlled entity for the year	(869)	(487)
	<u>(869)</u>	<u>(487)</u>

A condensed summary of the financial information of the Group’s jointly controlled entity is not presented for 2005 because Sangyang Spandex has been disposed of by the Group during the year.

## 19. AMOUNT DUE FROM A RELATED COMPANY

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>		
– Amount due from Kiu Hung Holdings Limited	2,619	–
<b>Current</b>		
– Amount due from Kiu Hung Holdings Limited	5,513	–
	<u>8,132</u>	<u>–</u>

The amount was stated at amortised cost using the effective interest rate of the Group at 6.9% per annum. The amount is unsecured and the repayment terms are set out in note 36(ii).

## 20. INTANGIBLE ASSETS

<b>Group</b>	<b>Production and distribution rights</b>		<b>Total</b>
	<b>Goodwill</b>	<b>rights</b>	<b>HK\$'000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying value at 1 January 2004	717	4,667	5,384
Impairment	–	(3,667)	(3,667)
Dissolution of a subsidiary	(448)	–	(448)
Amortisation charge for the year	(269)	(1,000)	(1,269)
<b>Carrying value at 31 December 2004</b>	<u>–</u>	<u>–</u>	<u>–</u>
Gross amount at 31 December 2004	–	5,000	5,000
Accumulated impairment	–	(3,667)	(3,667)
Accumulated amortisation	–	(1,333)	(1,333)
<b>Carrying value at 31 December 2004</b>	<u>–</u>	<u>–</u>	<u>–</u>
Carrying value at 1 January 2005	–	–	–
Acquisition of a subsidiary	261	–	261
Impairment	(261)	–	(261)
<b>Carrying value at 31 December 2005</b>	<u>–</u>	<u>–</u>	<u>–</u>
Gross amount at 31 December 2005	261	5,000	5,261
Accumulated impairment	(261)	(3,667)	(3,928)
Accumulated amortisation	–	(1,333)	(1,333)
<b>Carrying value at 31 December 2005</b>	<u>–</u>	<u>–</u>	<u>–</u>

The production and distribution rights represent the exclusive right to produce and distribute the nano plush toys and the non-exclusive right to produce and distribute the nano decorative gift items in the PRC. The directors have assessed the market condition for these products and consider that the demand for such products will be limited in the near future and therefore full provision for impairment was made against the carrying amount of the rights as at 31 December 2004.

## 21. INVENTORIES

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	10,358	6,388
Work in progress	3,228	2,140
Finished goods	791	2,168
	<u>14,377</u>	<u>10,696</u>
Less: Provision for slowing moving inventories	(6,768)	(3,637)
	<u>7,609</u>	<u>7,059</u>
The cost of inventories recognised as expense and included in cost of sales	<u>40,174</u>	<u>57,274</u>

## 22. TRADE AND OTHER RECEIVABLES

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	12,749	1,379
Prepayments, deposits and other receivables	1,796	2,282
	<u>14,545</u>	<u>3,661</u>

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.



At 31 December 2005, the ageing analysis of the trade and bills receivables, net of provision, is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
0 – 30 days	6,679	342
31 – 90 days	5,990	1,037
91-180 days	80	–
	<u>12,749</u>	<u>1,379</u>

### 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	<b>Group</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Listed equity securities in Hong Kong held for trading, at fair value	<u>286</u>	<u>306</u>
Market value of listed securities held as at 31 December	<u>286</u>	<u>306</u>

The trading securities were reclassified from short term investments to financial assets at fair value through profit or loss in accordance with HKAS 39 “Financial Instruments: Recognition and Measurement” on 1 January 2005.

Changes in fair values of financial assets at fair value through profit or loss are recorded in other operating expenses in the consolidated income statement.

### 24. CASH AT BANKS AND IN HAND

Included in cash at banks and on hand is an amount of approximately HK\$36,732,000 (2004: HK\$47,698,000), representing Renminbi (“RMB”) deposits placed with banks in the PRC by the Group.

RMB is not freely convertible into foreign currencies. Under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

## 25. TRADE AND OTHER PAYABLES

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	10,858	7,179
Other payables and accruals:		
Deposit received	940	824
Accrued expenses	4,687	6,728
Other taxes	28	33
	<u>5,655</u>	<u>7,585</u>
	<u><u>16,513</u></u>	<u><u>14,764</u></u>

At 31 December 2005, the ageing analysis of the trade and bills payables was as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	2,728	976
31 – 90 days	5,595	3,665
91 – 180 days	2,196	2,380
181 to 360 days	308	152
Over 360 days	31	6
	<u>10,858</u>	<u>7,179</u>

## 26. BORROWINGS

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>		
Interest bearing bank loans	2,203	2,609
Finance lease liabilities	48	210
	<u>2,251</u>	<u>2,819</u>
<b>Current</b>		
Interest bearing bank loans	28,774	26,699
Interest bearing trust receipt loans	1,780	2,973
Finance lease liabilities	96	574
	<u>30,650</u>	<u>30,246</u>
Total borrowings	<u><u>32,901</u></u>	<u><u>33,065</u></u>
Secured	<u><u>32,901</u></u>	<u><u>33,065</u></u>

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

At 31 December 2005, the Group's bank loans and overdrafts and other borrowings (excluding finance lease liabilities) were repayable as follows:

	<b>Group</b>			
	<b>Bank loans</b>		<b>Other borrowings</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	28,774	26,699	1,780	2,973
In the second year	445	440	–	–
In the third to fifth years	1,523	1,431	–	–
	<u>30,742</u>	<u>28,570</u>	<u>1,780</u>	<u>2,973</u>
Wholly repayable within 5 years	235	738	–	–
	<u>30,977</u>	<u>29,308</u>	<u>1,780</u>	<u>2,973</u>

The analysis of the obligations under finance leases is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Due within one year	111	663
Due in the second to fifth years	56	245
	<u>167</u>	<u>908</u>
Future finance charges on finance leases	(23)	(124)
	<u>144</u>	<u>784</u>

The present value of finance lease liabilities is as follows:

Due within one year	96	574
Due in the second to fifth years	48	210
	<u>144</u>	<u>784</u>
Less: Portion due within one year included under current liabilities	(96)	(574)
	<u>48</u>	<u>210</u>

At 31 December 2005, the banking facilities of the Group were secured by:

- (i) first legal charges on certain of the Group's buildings, leasehold land and buildings and land use rights with carrying value of approximately HK\$10,200,000 (2004: HK\$25,727,000), HK\$9,300,000 (2004: HK\$8,300,000) and nil (2004: HK\$3,935,000) respectively (note 13 and 14);
- (ii) corporate guarantees executed by the Company to the extent of HK\$14 million (2004: 39 million) and;
- (iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK\$22 million (2004: HK\$13 million).

The exposure of the Group's fixed-rate borrowings are as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Fixed-rate borrowings:		
Within one year	24,615	25,808
In more than one year but not more than two years	47	153
In more than two years but not more than three years	1	56
In more than three years but not more than four years	-	1
	<u>24,663</u>	<u>26,018</u>

In addition, the Group has variable-rate borrowings which are denominated in Hong Kong dollars ("HKD") and RMB. For borrowings denominated in RMB with variable-rate, the rates are re-set quarterly based on rates announced by the People's Bank of China. For borrowings denominated in HKD with variable rate, the rates are set at the range from HIBOR plus 1.75% per annum to HK prime rate per annum.

The ranges of effective interest rates on the Group's borrowings are as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Effective interest rate:		
Fixed-rate borrowings	3% to 7.25%	3% to 7.25%
Variable-rate borrowings	2.31% p.a. to <u>8.09% p.a.</u>	1.83% p.a. to <u>4% p.a.</u>

During the year, the Group obtained new loans in the amount of HK\$28,368,000. The loans bear interest rate at market rates and will be repayable in 2006. The proceeds were used to finance the Group's daily operations.

## 27. SHARE CAPITAL

	<b>Number of shares</b>	<b>As at 31 December 2005</b> <i>HK\$'000</i>	<b>As at 31 December 2004</b> <i>HK\$'000</i>
Authorised:			
5,000,000,000 ordinary shares of HK\$0.02 each	<u>5,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:			
At 1 January 2004, 31 December 2004, 1 January 2005 and 31 December 2005	<u>2,213,820,000</u>	<u>44,277</u>	<u>44,277</u>

## 28. SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") which became effective on 28 May 2002.

Pursuant to the Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for shares of the Company (the "Shares"). The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at 28 May 2002. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

During the year, no share option had been granted under the share option scheme (2004: Nil).

At 31 December 2005, no option had been granted or was outstanding under the share option scheme operated by the Company.

## 29. RESERVES

### Group

	Other reserves						Sub-total	Retained profits	Total						
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Assets revaluation reserve									
										HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										(note (a))	(note (b))				
At 1 January 2004, as previously reported	1,658	976	702	(2,857)	280	62,765	63,524	48,981	112,505						
Effect of initial adoption of HKAS17 (note 2.7)	-	-	-	-	-	(53,250)	(53,250)	4,091	(49,159)						
Effect of initial adoption of HKAS40 & HK(SIC) Int21 (note 2.7)	-	-	-	-	(280)	(557)	(837)	280	(557)						
Balance at 1 January 2004, as restated	1,658	976	702	(2,857)	-	8,958	9,437	53,352	62,789						
Revaluation surplus	-	-	-	-	-	2,003	2,003	-	2,003						
Appropriation of statutory surplus reserve	-	133	-	-	-	-	133	(133)	-						
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(16)	(16)	-	(16)						
Net income/(expense) recognised directly in equity	-	133	-	-	-	1,987	2,120	(133)	1,987						
Loss for the year	-	-	-	-	-	-	-	(11,888)	(11,888)						
Total recognised income and expense for the year	-	133	-	-	-	1,987	2,120	(12,021)	(9,901)						
At 31 December 2004	1,658	1,109	702	(2,857)	-	10,945	11,557	41,331	52,888						

## Group

	Other reserves						Retained profits	Total	
	Share premium	Statutory surplus reserve	Investment						Sub-total
			Capital reserve	Exchange fluctuation reserve	property revaluation reserve	Assets revaluation reserve			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 31 December 2004,									
as previously reported	1,658	1,109	702	(2,857)	280	65,743	66,635	35,576	102,211
Effect of initial adoption of HKAS17 (note 2.7)	-	-	-	-	-	(54,241)	(54,241)	5,475	(48,766)
Effect of initial adoption of HKAS40 & HK(SIC) Int21 (note 2.7)	-	-	-	-	(280)	(557)	(837)	280	(557)
Balance at 31 December 2004 and 1 January 2005, as restated	1,658	1,109	702	(2,857)	-	10,945	11,557	41,331	52,888
Revaluation surplus	-	-	-	-	-	1,841	1,841	-	1,841
Appropriation of statutory surplus reserve	-	386	-	-	-	-	386	(386)	-
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(202)	(202)	-	(202)
Translation adjustments	-	-	-	1,402	-	-	1,402	-	1,402
Reserve transferred to retained earnings upon disposal of a subsidiary	-	-	(389)	-	-	-	(389)	389	-
Net income recognised directly in equity	-	386	(389)	1,402	-	1,639	3,038	3	3,041
Loss for the year	-	-	-	-	-	-	-	(41)	(41)
Total recognised income and expense for the year	-	386	(389)	1,402	-	1,639	3,038	(38)	3,000
<b>At 31 December 2005</b>	<b>1,658</b>	<b>1,495</b>	<b>313</b>	<b>(1,455)</b>	<b>-</b>	<b>12,584</b>	<b>14,595</b>	<b>41,293</b>	<b>55,888</b>

## Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(note (b))</i>	Retained profits/ (Accumulated loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	1,658	125,161	3,839	130,658
Loss for the year	—	—	(1,853)	(1,853)
At 31 December 2004 and at 1 January 2005	1,658	125,161	1,986	128,805
Loss for the year	—	—	(26,109)	(26,109)
At 31 December 2005	<u>1,658</u>	<u>125,161</u>	<u>(24,123)</u>	<u>102,696</u>

- (a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their net profit after tax, as calculated in accordance with the PRC accounting regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiaries' equity owners. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.
- (b) The capital reserve of the Group represents the excess of the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares on the Stock Exchange over the nominal value of Company's shares issued in exchange therefor.

The capital reserve of the Company represents the difference between the combined net asset value of the subsidiaries acquired pursuant to the group reorganisation referred to above and the nominal value of the shares of the Company issued in exchange therefor.



**30. DEFERRED TAX**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement in deferred tax assets and liabilities during the year is as follows:

**Deferred tax liabilities**

	<b>Accelerated depreciation allowances</b>		<b>Revaluation of properties</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	1,265	1,284	2,461	2,445	3,726	3,729
Acquisition of a subsidiary	158	–	–	–	158	–
Credited to consolidated income statement	(322)	(19)	–	–	(322)	(19)
Charged to equity	–	–	202	16	202	16
At 31 December	<u>1,101</u>	<u>1,265</u>	<u>2,663</u>	<u>2,461</u>	<u>3,764</u>	<u>3,726</u>

**Deferred tax assets**

	<b>Tax losses</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	2,219	1,350
(Charged)/Credited to consolidated income statement	(232)	869
At 31 December	<u>1,987</u>	<u>2,219</u>

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK\$5,348,000 (2004: HK\$5,302,000) and HK\$3,853,000 (2004: HK\$3,853,000) respectively due to the unpredictability of future profit streams. The tax losses will not expire under current tax legislation.

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Acquisition of a subsidiary

On 17 December 2005, Pine Growth International Limited, a wholly owned subsidiary of the Group, entered into an agreement with Miracles For Fun, LLC, an independent third party in relation to the acquisition of 33% of the issued share capital of Miracles for Fun (HK) Limited (“MFF”) (the “Acquisition”). MFF, an associate of the Group with 30% interests before the Acquisition, is incorporated in Hong Kong with limited liability and is engaged in trading of toys and decorative gifts. Upon completion of the Acquisition, the Group has 63% interests in the issued share capital of MFF and MFF becomes a non-wholly owned subsidiary of the Company.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	1,580	–
Trade and other receivables	808	–
Amount due to an associate	(2,849)	–
Tax recoverable	126	–
Cash at banks	529	–
Trade and other payables	(297)	–
Deferred tax liabilities	(158)	–
	<hr/>	<hr/>
Net liabilities acquired	(261)	–
Goodwill	261	–
	<hr/>	<hr/>
Consideration	–	–
	<hr/>	<hr/>
Satisfied by:		
Cash	–	–
	<hr/>	<hr/>

Analysis of the net cash inflow of cash and cash equivalents in respect of the acquisition of a subsidiary:–

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cash consideration	–	–
Cash acquired	529	–
	<hr/>	<hr/>
Net cash inflow in respect of the acquisition of a subsidiary	529	–
	<hr/>	<hr/>

The acquired business contributed revenues of HK\$627,000 and net loss of HK\$17,000 to the Group for the period from 18 December 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group’s revenue would have been HK\$76,279,000 and loss before allocations would have been HK\$1,158,000.

**(b) Disposal of subsidiaries**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Net assets disposed of:		
Interest in a jointly controlled entity	26,681	–
Property, plant and equipment	2,991	11,752
Cash	27	1
Other payables and accruals	(2,393)	(424)
Capital contribution payable to a jointly controlled entity	(13,983)	–
Provision for tax	(2,963)	(11,306)
	<u>10,360</u>	<u>23</u>
Gains on disposal of subsidiaries	<u>2,740</u>	<u>69</u>
Consideration	<u><u>13,100</u></u>	<u><u>92</u></u>
Satisfied by:		
Cash	2,068	92
Receivable from a related company	11,032	–
	<u><u>13,100</u></u>	<u><u>92</u></u>

An analysis of the net cash inflow in respect of the disposal of subsidiaries is as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Cash consideration received	2,068	92
Cash disposed of	(27)	(1)
Net cash inflow in respect of the disposal of subsidiaries	<u><u>2,041</u></u>	<u><u>91</u></u>

The subsidiaries disposed of during the year did not contribute any amount to the Group's revenue (2004: HK\$Nil) and contributed HK\$1,224,000 (2004: HK\$11,000) to the consolidated loss after taxation for the year ended 31 December 2005.

The subsidiaries disposed of during the year utilised HK\$1,413,000 (2004: contributed HKD738,000) to the Group's net operating cash flows.

**32. OPERATING LEASE COMMITMENTS****(a) As lessor**

The Group leases its investment property under operating lease arrangement, with lease negotiated for a term of one year. The terms of the lease generally also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Within one year	<u>25</u>	<u>25</u>
<b>(b) As lessee</b>		

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms of two years (2004: two years).

At 31 December 2005, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Within one year	178	244
In the second to fifth years, inclusive	<u>—</u>	<u>178</u>
	<u>178</u>	<u>422</u>

**(c)** At 31 December 2005, the Company had no operating lease commitments.

### 33. CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitment at the balance sheet date (2004: Nil).

### 34. CONTINGENT LIABILITIES

At 31 December 2005, contingent liabilities not provided for in the financial statements were as follows:

	<b>Company</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>14,000</u>	<u>39,000</u>

The Group did not have any significant contingent liabilities at the balance sheet date (2004: Nil).

**35. RETIREMENT BENEFITS SCHEMES**

The Group operates a Pension Scheme and a MPF scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the retirement schemes at a certain percentage of the basic salaries of their employees.

The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of HK\$818,000 (2004: HK\$858,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2005 and 2004, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2004: Nil) was available at 31 December 2005 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2005 in respect of the retirement of its employees.

**36. CONNECTED AND RELATED PARTY TRANSACTIONS**

The Group is controlled by Kiu Hung International Holdings Limited, a limited liability company incorporated and domiciled in Cayman Islands. The ultimate parent company of the Group is Legend Win Profits Limited, a company incorporated in British Virgin Islands.

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**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods to Micacles for Fun (HK) Limited ("MFF"), an associate of the Group	<u>2,524</u>	<u>6,728</u>

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

On 17 December 2005, MFF became a non-wholly owned subsidiary of the Group (see details in note 31(a)). After then, all transactions and balances with MFF are eliminated on consolidation.

**(ii) Disposal of a subsidiary, Huge Profit Enterprises Limited**

On 19 April 2005, Legend Wealth Holdings Limited (“Legend Wealth”), a wholly owned subsidiary of the Company entered into an agreement with Kiu Hung Holdings Limited, a company beneficially owned by the three executive directors of the Company in relation to the disposal of the entire issued share capital of Huge Profit Enterprises Limited (“Huge Profit”), a wholly owned subsidiary of Legend Wealth (“the Disposal”). According to the agreement, the assets to be disposed of are the entire issued share capital of Huge Profit (“the Sale Shares”) and the shareholder’s loan in the sum of HK\$14,029,904 owing by Huge Profit to Legend Wealth (“the Sale Loan”). The aggregate consideration for the sale and purchase of the Sale Shares and the Sale Loan was HK\$14,029,905, of which HK\$1 was the consideration for the sale and purchase of the Sale Shares and HK\$14,029,904 was the consideration for the sale and purchase of the Sale Loan. Huge Profit is an investment holding company and owns 30% of the equity interest in Sangyang Spandex Co. Ltd., a jointly controlled entity of the Group.

As at 31 December 2005, included in total consideration of HK\$14,029,905, HK\$9,000,000 was still outstanding from Kiu Hung Holdings Limited and will be collected by the Group in 3 instalments on the date falling 12 months, 18 months and 24 months after the completion date of the Disposal (i.e. 24 June 2005). Such outstanding consideration has been recorded as amount due from a related company at amortised cost of HK\$8,132,000 under current or non-current assets in the consolidated balance sheet (note 19) as at 31 December 2005.

**37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group’s major financial assets and liabilities include available-for-sale financial assets, trade and other receivables, amount due from a related company, cash and bank balances, trade and other payables, and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**37.1 Foreign currency risk**

Major subsidiaries of the Group operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against the Hong Kong dollars. It has not hedged its foreign exchange rate risk. However the management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arises.

**37.2 Interest rate risk**

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank borrowings (bank borrowings carry interest at variable rate and fixed rate). The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 26. The Group currently does not have an interest rate hedging policy.

**37.3 Credit risk**

The Group’s maximum exposure to credit risk in the event of the counterparties’ failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

**37.4 Fair value**

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

**37.5 Liquidity risk**

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

## 3. INTERIM RESULTS

The following are the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2006 extracted from the 2006 interim report and accounts of the Company:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2006</b>	<b>2005</b>
		(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<b>REVENUE</b>	3	33,291	20,299
Cost of sales		<u>(23,419)</u>	<u>(15,347)</u>
Gross profit		9,872	4,952
Other income	3	1,131	4,039
Distribution costs		(4,546)	(2,671)
Administrative expenses		(9,090)	(8,121)
Other operating expenses		<u>(248)</u>	<u>(354)</u>
<b>OPERATING LOSS</b>	4	(2,881)	(2,155)
Finance costs	5	(1,338)	(2,429)
Share of loss of a jointly controlled entity		–	(869)
Share of loss of an associate		<u>–</u>	<u>(335)</u>
<b>LOSS BEFORE TAXATION</b>		(4,219)	(5,788)
Taxation	6	<u>(163)</u>	<u>(31)</u>
<b>LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<u><u>(4,382)</u></u>	<u><u>(5,819)</u></u>
<b>INTERIM DIVIDENDS</b>	7	<u><u>–</u></u>	<u><u>–</u></u>
<b>LOSS PER SHARE</b>	8		
– Basic		<u><u>HK(0.20) cent</u></u>	<u><u>HK(0.26) cent</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>



## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	62,941	66,369
Prepaid land lease payments		6,042	6,118
Investment property		400	400
Amount due from a related company		–	2,619
Deferred tax assets		1,987	1,987
		<u>71,370</u>	<u>77,493</u>
<b>CURRENT ASSETS</b>			
Inventories		11,629	7,609
Trade and bills receivables	10	11,816	12,749
Prepayment, deposits and other receivables		1,370	1,796
Amount due from a related company		5,703	5,513
Tax recoverable		139	126
Financial assets at fair value through profit or loss		286	286
Cash at banks and in hand		56,452	48,034
		<u>87,395</u>	<u>76,113</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	14,515	10,858
Other payables and accruals		6,700	5,655
Provision for tax		351	263
Bank and trust receipt loans		35,504	30,554
Finance lease payables		89	96
		<u>57,159</u>	<u>47,426</u>
<b>NET CURRENT ASSETS</b>		<u>30,236</u>	<u>28,687</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		101,606	106,180
<b>NON-CURRENT LIABILITIES</b>			
Bank loans		1,995	2,203
Finance lease payables		7	48
Deferred tax liabilities		3,821	3,764
		<u>5,823</u>	<u>6,015</u>
<b>NET ASSETS</b>		<u>95,783</u>	<u>100,165</u>
<b>EQUITY</b>			
Share capital	12	44,277	44,277
Reserves		51,506	55,888
<b>TOTAL EQUITY</b>		<u>95,783</u>	<u>100,165</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	4,404	(15,637)
Net cash inflow/(outflow) from investing activities	2,727	(7,896)
Net cash inflow from financing activities	1,287	2,874
	<hr/>	<hr/>
Net increase/(decrease) in		
cash at banks and in hand	8,418	(20,659)
Cash at banks and in hand at 1 January	48,034	56,616
	<hr/>	<hr/>
Cash at banks and in hand at 30 June	<u>56,452</u>	<u>35,957</u>

## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance – Total equity	100,165	97,165
Loss for the period	<u>(4,382)</u>	<u>(5,819)</u>
Closing balance – Total equity	<u><u>95,783</u></u>	<u><u>91,346</u></u>

## 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 and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company’s 2005 Annual Report.

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 7 August 2006.

## 2. SEGMENT INFORMATION

## (a) Business segments

The following tables present revenue and results for the Group’s business segments.

	Toys		Decorative gift items		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue:						
Sales to external customers	<u>18,188</u>	<u>11,488</u>	<u>15,103</u>	<u>8,811</u>	<u>33,291</u>	<u>20,299</u>
Segment results	<u>1,081</u>	<u>(3,090)</u>	<u>(4,110)</u>	<u>(1,890)</u>	(3,029)	(4,980)
Interest, rental income and unallocated gains					1,131	4,039
Unallocated expenses					<u>(983)</u>	<u>(1,214)</u>
Operating loss					(2,881)	(2,155)
Finance costs					(1,338)	(2,429)
Share of loss of a jointly controlled entity					–	(869)
Share of loss of an associate					<u>–</u>	<u>(335)</u>
Loss before taxation					(4,219)	(5,788)
Taxation					<u>(163)</u>	<u>(31)</u>
Loss for the period					<u>(4,382)</u>	<u>(5,819)</u>

**(b) Geographical segments**

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

	The PRC (including Hong Kong)		North America		European Union		Others		Total	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
Segment revenue:										
Sales to external customers	2,473	1,984	26,139	13,933	3,299	3,940	1,380	442	33,291	20,299
Segment results	(241)	(438)	(2,332)	(3,516)	(333)	(916)	(123)	(110)	(3,029)	(4,980)

**3. REVENUE AND OTHER INCOME**

Revenue represents the total invoiced value of goods sold, net of allowances for returns and trade discounts.

An analysis of the Group's revenue and other income is as follows:

	Six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue – sale of goods	33,291	20,299
Other income		
Bank interest income	130	118
Other interest income	571	–
Rental income, net	13	13
Exchange gains, net	59	–
Sale of moulds	143	226
Gain on disposal of subsidiaries	–	2,740
Others	215	942
	1,131	4,039

**4. OPERATING LOSS**

The Group's operating loss is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2006</b> (Unaudited) <i>HK\$'000</i>	<b>2005</b> (Unaudited) <i>HK\$'000</i>
Depreciation	3,831	2,532
Amortisation of prepaid land lease payments	76	78
Exchange loss, net	–	28
Unrealised loss on financial assets at fair value through profit or loss	–	20
Staff costs	7,921	7,465
	<u>7,921</u>	<u>7,465</u>

**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2006</b> (Unaudited) <i>HK\$'000</i>	<b>2005</b> (Unaudited) <i>HK\$'000</i>
Interest on bank loans and trust receipt loans wholly repayable within five years	1,331	1,096
Interest on bank loans not wholly repayable within five years	–	62
Interest on finance leases	7	47
Interest on capital contribution payable to a jointly controlled entity	–	1,224
	<u>1,338</u>	<u>2,429</u>

**6. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2006</b> (Unaudited) <i>HK\$'000</i>	<b>2005</b> (Unaudited) <i>HK\$'000</i>
Income tax provision for the period:		
Hong Kong	106	31
Elsewhere	–	–
	<u>106</u>	<u>31</u>
Deferred tax	57	–
	<u>163</u>	<u>31</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) 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.

**7. INTERIM DIVIDENDS**

The Board has resolved not to pay any interim dividend for the period (2005: Nil).

**8. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss for the period of HK\$4,382,000 (2005: HK\$5,819,000) and the weighted average of 2,213,820,000 (2005: 2,213,820,000) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 June 2006 is not presented because the result of the exercise of potential ordinary shares during the period would be anti-dilutive. Diluted loss per share for the period ended 30 June 2005 is not presented as there was no potential dilutive ordinary shares in existence for the period.

**9. PROPERTY, PLANT AND EQUIPMENT**

The changes in the net book value of property, plant and equipment for the six months ended 30 June 2006 are analysed as follows:

	(Unaudited) HK\$'000
At 1 January 2006	66,369
Additions	403
Depreciation	(3,831)
	<hr/>
At 30 June 2006	<u>62,941</u>

**10. TRADE AND BILLS RECEIVABLES**

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An ageing analysis of trade and bills receivables, net of provision, is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
0-30 days	9,918	6,679
31-90 days	1,433	5,990
91-180 days	161	80
181-360 days	304	-
	<hr/>	<hr/>
	<u>11,816</u>	<u>12,749</u>

**11. TRADE AND BILLS PAYABLES**

An ageing analysis of trade and bills payables is as follows:

	<b>As at 30 June 2006</b> (Unaudited) <i>HK\$'000</i>	<b>As at 31 December 2005</b> (Audited) <i>HK\$'000</i>
0-30 days	5,830	2,728
31-90 days	6,794	5,595
91-180 days	1,579	2,196
181-360 days	290	308
Over 360 days	22	31
	<u>14,515</u>	<u>10,858</u>

**12. SHARE CAPITAL**

	<b>As at 30 June 2006</b> (Unaudited) <i>HK\$'000</i>	<b>As at 31 December 2005</b> (Audited) <i>HK\$'000</i>
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.02 each	<u>100,000</u>	<u>100,000</u>
	<b>Number of ordinary shares of HK\$0.02 each</b>	<b>Par value <i>HK\$'000</i></b>
<i>Issued and fully paid:</i>		
At 1 January and 30 June 2006	<u>2,213,820,000</u>	<u>44,277</u>

**Share options**

The Company operates a share option scheme for eligible participants to subscribe for new shares of the Company. A summary of the terms of the share option scheme was disclosed in the Company's 2005 annual report.

During the period, the Company has granted 94,500,000 share options under its share option scheme, which enable the option holders to subscribe for 94,500,000 shares of the Company at an exercise price of HK\$0.13 per share during the period from 1 January 2007 to 18 June 2016. All such share options remain unexercised and outstanding as at 30 June 2006.

Pursuant to an announcement made by the Company on 6 July 2006, the Company has resolved to issue 774,837,000 offer shares at a price of HK\$0.05 per offer share by way of open offer of new shares. In accordance with the terms of the Company's share option scheme, adjustments to the outstanding share options are required to be made due to the issue of the offer shares and upon the open offer becoming unconditional. Such adjustments will be set out in the Company's announcement of the results of the open offer in due course.



## 4. INDEBTEDNESS

**Borrowings**

As at 31 January 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding borrowings:

	<b>Non-current portion</b> <i>HK\$'000</i>	<b>Current portion</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Short-term bank loans, secured	–	4,900	4,900
Short-term bank loans, unsecured	–	22,498	22,498
Trust receipt loans, unsecured	–	1,277	1,277
Finance lease payables, secured	–	39	39
Long-term bank loans, secured	1,728	445	2,173
Other loans, unsecured	–	6,500	6,500
Amounts due to shareholders of Jumplex			
First Choice and Wise House, unsecured	–	1,032	1,032
Loan from a director of Mingrunfeng, unsecured	–	1,000	1,000
	<u>1,728</u>	<u>37,691</u>	<u>39,419</u>

As at 31 January 2007, the credit facilities of the Enlarged Group were supported by the following:

- (i) first legal charges on certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK\$5,245,000 and HK\$9,860,000 respectively;
- (ii) charges over certain equipment and motor vehicles with the carrying amount of approximately HK\$150,000;
- (iii) guarantees given by the Original Shareholders in the amount of approximately RMB4,500,000 for unsecured other loans of Mingrunfeng;
- (iv) guarantees given by Mr. Yang and a director of Jumplex in the amount of approximately RMB2,000,000 for an unsecured other loan of Mingrunfeng; and
- (v) guarantees given by Jumplex, First Choice and Wise House in the amount of approximately RMB1,000,000 for an unsecured loan from a director of Mingrunfeng.

Save as aforesaid and apart from intra-group liabilities, as at 31 January 2007 the Enlarged Group had no debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Save as disclosed in this paragraph "Indebtedness", the Directors confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the Enlarged Group since 31 January 2007.

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited financial statements of the Company were made up.

**6. WORKING CAPITAL**

Taking into the account the financial resources available to the Enlarged Group, including internally generated funds, the available banking facilities and credit facilities in the amount of not less than HK\$50 million provided by Legend Win Profits Limited, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 24 months from the date of publication of this circular in the absence of unforeseeable circumstances.

The credit facilities provided by Legend Win Profits Limited is unsecured, interest free and has no specific repayment terms. Legend Win Profits Limited is a substantial shareholder of the Company which holds approximately 52.32% of the issued share capital of the Company as at the Latest Practicable Date. The issued share capital of Legend Win Profits Limited 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, all being executive Directors, are the registered members and directors of Hui's K. K. Foundation Limited.

**7. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005**

*For the year ended 31 December 2003*

**Business Review**

The Group's turnover and loss attributable to shareholders for the year ended 31 December 2003 were approximately HK\$84.0 million (2002: HK\$100.3 million) and HK\$4.6 million (2002: profit attributable to shareholders of approximately HK\$11.7 million), respectively. The Group has also incurred losses arising from the revaluation of properties and write-off of fixed assets of approximately HK\$2.8 million and HK\$3.4 million, respectively, during the year under review. Basic loss per share for the year under review was 0.21 HK cent (2002: Basic earnings per share of 0.53 HK cent). Notwithstanding the above, the Group's financial position remained healthy and recorded a positive cash inflow of approximately HK\$11.3 million during the year under review (2002: cash outflow of approximately HK\$4.8 million). The board of directors of the Company does not recommend the payment of any final dividend in respect of the year (2002: Nil).

**Toys and Gifts Division**

During the year under review, the Group continued to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brand names KCARE and KITECH. The global sluggish economy and the SARS outbreak in Hong Kong and the PRC negatively impacted the Group's annual results. The uncertainty and poor consumer confidence due to the SARS had deterred normal business activities from both local and overseas customers during our order placement season. As a result, orders received from our existing and potential customers were severely reduced. During the year under review, revenue from toys and decorative gift items was approximately HK\$52.8 million and HK\$31.2 million, respectively (2002: approximately HK\$60.3 million and HK\$40.0 million, respectively), accounting for approximately 63% of 37% of the Group's total turnover, respectively.

The SARS outbreak has ignited the growing concern for environmental-friendly and anti-bacterial products. To enhance our product competitiveness, the Group has entered into a partnership agreement with U-Right International Holdings Limited to jointly manufacture and distribute the first-of-its-kind nano plush toys processed by the Swedish Texcote Technology. Recent tests have proved that the Texcote treated fabric is anti-bacterial and able to drain away over 96% of Escherichia Coli, Klebsiella Pneumoniae and Staphylococcus Aureus. During the product trial period, the nano plush toys, with the environmental-friendly features of water repellence, stain resistance and anti-bacteria, have received encouraging response from our customers.

The Group's subsidiary in the United States of America has also commenced its operation to offset the negative impact brought by the unexpected regional outbreak of incident and epidemic. The subsidiary was mainly responsible for handling the sales orders from the customers in North America.

### **Spandex Division**

On 17 December 2003, the Group has entered into an agreement with Sinochem International, Sangyang Textile Co., Ltd. and Harvest City Enterprises Limited to establish a joint venture, Sangyang Spandex Co. Ltd. ("SY Spandex"), in the Jiangsu Province of the PRC. The total investment and registered capital of SY Spandex amounted to approximately HK\$229 million and HK\$94 million, respectively. The Group currently has a 30% equity interest in SY Spandex and has an option to increase its stake in SY Spandex to 47% on or before 12 January 2005.

SY Spandex will be principally engaged in the production, research and development and sale of spandex in the PRC. The initial annual production capacity will be 5,000 tonnes of spandex and will be further increased to 10,000 tonnes in the second phase. Construction of the production facilities of SY Spandex in the Jiangyin City of Jiangsu Province is expected to commence in the second quarter of 2004 and be completed before the end of 2004.

The joint venture agreement represents the establishment of Sinochem International's first joint venture in the production of spandex. Sinochem International will provide the joint venture with the most advanced and proprietary technology in spandex production, which will lower the investment and production costs of the joint venture. Sinochem International is the sole PTMEG manufacturer in the PRC, hence guaranteeing a stable and abundant supply of raw materials for spandex production by the joint venture.

Spandex is a kind of highly elastic chemical fibre widely applied in different types of cloths, garments and plush products. The application of spandex can make the plush and cloth become softer and more attractive to enhance the products' value-added features. Its application has also been extended to medical products through the addition of anti-bacteria features. The Group believes that spandex can enhance the variety and quality of the Group's products. Establishing the joint venture also gives the Group an opportunity in vertically integrating its production process.

### **Financial Review**

#### **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. During the year under review, cash generated across the Group remained strong, with approximately HK\$20.4 million being generated from operating activities. The Group recorded a net inflow of approximately HK\$11.3 million during the year, which increased the total cash and bank balances to approximately HK\$49.1 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 74% of such borrowings bear interest at fixed lending rate. At 31 December 2003, the Group's bank and other borrowings amounted to approximately HK\$33.9 million, out of which approximately 61% is repayable within one year. The gearing ratio of the Group at 31 December 2003 calculated as a ratio of total bank and other borrowings to total assets is approximately 14% (2002: 14%). Net current assets at 31 December 2003 was approximately HK\$50.5 million and current ratio was maintained at a healthy level of approximately 166%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2003, certain of the Group's leasehold land and buildings with carrying values of approximately HK\$104,637,000, were pledged to secure general banking facilities granted to the Group.

### **Employment, Training and Development**

At 31 December 2003, the Group has a total of 1,167 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

### **Outlook**

The Group believes that the unexpected occurrence of SARS and business turmoil in 2003 is not likely to recur again. The gradual recovery of the global economy in 2004 will help giving a boost to the customers' confidence. The Group is highly optimistic towards a turnaround performance in the Group's toys and gifts division in 2004. In addition, the Group had strived to enhance the product competitiveness through the addition of value-added features. The application of nanotechnology will help the Group further upgrade the product quality to meet the discerning need of the customers. While the Group's diversification into the spandex industry is expected to take on increasing importance, its toys and gifts business will continue to provide a stable revenue platform through the Group's excellence in product quality, extensive distribution network and strong brand recognition.

The Group will continue to bolster its sales and marketing force to expand our market, including North America, Europe and the PRC. The Group will also explore collaboration opportunities with prestigious brand names and retail chain stores to underpin our reputation and broaden our customer base. These initiatives will help to further strengthen our foothold in the toys and gifts industry in readiness of the growing demand due to global economic recovery.

The Group boasts a highly qualified and experienced management team, and will continue to recruit professionals with in-depth knowledge and expertise to enable the Group to operate effectively and efficiently. The management is optimistic towards our growth and an improvement in our financial performance in the coming year.

The Group will cautiously monitor the construction progress of the spandex production facilities and plan ahead of the joint venture's future business development strategy. Apart from the application of spandex in the Group's toys and gifts products, the Group will also tap into the well-established textile customer base in the Jiangsu Province and further expand the sales of spandex into other regions of the PRC. SY Spandex will become a leading spandex manufacturer in the PRC when its second phase of production reaches 10,000 tonnes of spandex. The Group is optimistic that the spandex division will turn into a dependable source of revenue growth in the future.

### *For the year ended 31 December 2004*

#### **Results**

The Group's audited turnover and loss attributable to shareholders for the year ended 31 December 2004 were approximately HK\$80.7 million (2003: HK\$84.0 million) and HK\$13.3 million (2003: HK\$4.6 million) respectively. Basic loss per share for the year under review was 0.60 HK cent (2003: 0.21 HK cent). The Board does not recommend the payment of any final dividend in respect of the year (2003: Nil).

#### **Business Review and Prospects**

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK\$39.8 million and HK\$40.9 million, respectively (2003: approximately HK\$52.8 million and HK\$31.2 million, respectively), accounting for approximately 49% and 51% of the Group's total turnover, respectively.

The year of 2004 was a difficult year for the operations of the Group. Turnover and profitability decreased as a result of the intense competition in the PRC toy and gift market. The surge in raw material costs resulting from the rise in crude oil price and the PRC labour shortage further affected the profitability of the Group. In addition, the Group has made a provision of approximately HK\$3.7 million in connection with the impairment of certain production and distribution rights, which contributed to the overall loss for the year under review.

We believe the year of 2005 will continue to be difficult for the toy and gift industries due to fierce competition, high raw material costs and the PRC labour shortage. Moving forward, the Group will continue to invest in research and development and to develop new series of products with add-on features and functions. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC. The Group will explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business.

Subsequent to the year under review, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. (“Sangyang Spandex”) on 19 April 2005. As Sangyang Spandex has not commenced any operation, the disposal would have negligible impact on the business operations of the Group. Details of the disposal are set out in the Company’s announcement dated 25 April 2005.

### **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. During the year under review, cash generated across the Group remained strong, with approximately HK\$12.2 million being generated from operating activities. The Group recorded a net inflow of approximately HK\$7.5 million during the year, which increased the total cash and bank balances to approximately HK\$56.6 million as at the balance sheet date. The Group’s cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group’s bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 76% of such borrowings bear interest at fixed lending rate. At 31 December 2004, the Group’s bank and other borrowings amounted to approximately HK\$33.1 million, out of which approximately 91% is repayable within one year. The gearing ratio of the Group at 31 December 2004 calculated as a ratio of total bank and other borrowings to total assets is approximately 14% (2003: 14%). Net current assets at 31 December 2004 was approximately HK\$6.6 million and current ratio was at a healthy level of approximately 111%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2004, certain of the Group’s leasehold land and buildings with carrying values of approximately HK\$104.5 million, were pledged to secure general banking facilities granted to the Group.

**Employment, Training and Development**

At 31 December 2004, the Group has a total of 1,021 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

***For the year ended 31 December 2005*****Results**

The Group's audited turnover and loss attributable to shareholders for the year ended 31 December 2005 were approximately HK\$67.5 million (2004: HK\$80.7 million) and HK\$0.04 million (2004: HK\$11.9 million) respectively. Basic loss per share for the year under review was 0.0019 HK cent (2004: 0.54 HK cent). The Board does not recommend the payment of any final dividend in respect of the year (2004: Nil).

**Business Review and Prospects**

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK\$31.8 million and HK\$35.7 million, respectively (2004: approximately HK\$39.8 million and HK\$40.9 million, respectively), accounting for approximately 47% and 53% of the Group's total turnover, respectively.



The year of 2005 was challenging for the operations of the Group. Turnover decreased as a result of the intense competition in the PRC toy and gift markets. Nevertheless, the Group managed to significantly narrow its net losses from approximately HK\$11.9 million in 2004 to approximately HK\$0.04 million in 2005 as a result of the development of new products with value-added features to enhance product profitability and the implementation of various cost control measures by the Group. During the year, the Group has increased its interest in Miracles For Fun (HK) Limited (“MFF”) from 30% to 63%. MFF is principally engaged in the design and sale of a wide range of toys and decorative gift items. We believe that such acquisition will expand the customer base of the Group and provide cross-selling opportunities between the Group and MFF. Details of the acquisition are set out in the Company’s announcement and circular dated 30 December 2005 and 13 January 2006, respectively.

During the year, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. (“SY Spandex”). As SY Spandex had not commenced any operation, the disposal had negligible impact on the business operations of the Group. Details of the disposal are set out in the Company’s announcement and circular dated 25 April 2005 and 1 June 2005, respectively.

Looking forward, we are optimistic about the performance of the Group as the global economy continues to flourish. The Group will continue to strengthen its foothold in the toys and gifts business through the development of products with add-on features and functions. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC and to explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. In addition, the Group will continue to explore other investment opportunities that have earning potentials 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.

### **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. During the year under review, the Group recorded a net cash outflow of approximately HK\$9.2 million, which decreased the total cash and bank balances to approximately HK\$48.0 million as at the balance sheet date. The Group’s cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group’s bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 77% of such borrowings bear interest at fixed lending rate. At 31 December 2005, the Group’s bank and other borrowings amounted to approximately HK\$32.9 million, out of which approximately 93% is repayable within one year. The gearing ratio of the Group at 31 December 2005 calculated as a ratio of total bank and other borrowings to total assets is approximately 21% (2004: 20%). Net current assets at 31 December 2005 was approximately HK\$28.7 million and current ratio was at a healthy level of approximately 160%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2005, certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK\$10.2 million and HK\$9.3 million, respectively, were pledged to secure general banking facilities granted to the Group.

**Employment, Training and Development**

At 31 December 2005, the Group has a total of 1,053 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

*The following is the text of a report, prepared for the purpose of incorporation in this circular, from Cachet Certified Public Accountants Limited in respect of the accountants' report on Jumplex, First Choice, Wise House and Mingrunfeng as set out in this appendix:*



## Cachet Certified Public Accountants Limited

## 德揚會計師事務所有限公司

30 March 2007

The Directors

Kiu Hung International Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Jumplex Investment Limited (“Jumplex”), First Choice Resources Limited (“First Choice”), Wise House Limited (“Wise House”) and Beijing Mingrunfeng Trading Co., Limited (北京銘潤峰商貿有限公司) (“Mingrunfeng”), including the income statements, statements of changes in equity and cash flow statements of Jumplex, First Choice, Wise House and Mingrunfeng for each of the three years ended 31 December 2004, 2005 and 2006 or since their respective dates of incorporation to 31 December 2006 whichever is shorter (the “Relevant Periods”) and of the balance sheets of Jumplex as at 31 December 2006; and of First Choice, Wise House and Mingrunfeng as at 31 December 2004, 2005 and 2006 and notes thereto (the “Financial Information”) for inclusion in the circular of Kiu Hung International Holdings Limited (the “Company”) dated 30 March 2007 (the “Circular”) in connection with:

- (a) the proposed contribution of RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest in Mingrunfeng pursuant to a capital contribution agreement (the “Capital Contribution Agreement”) dated 2 September 2006 entered into between Bright Asset Investment Limited (“Bright Asset”), a wholly owned subsidiary of the Company, and Jumplex, First Choice, Wise House and Mr. Yang Runzhi (“Mr. Yang”), the original shareholders of Mingrunfeng; and
- (b) (i) the proposed acquisition of the entire issued share capital of Jumplex and the outstanding shareholder’s loan at the date of completion of the Jumplex Acquisition Agreement at a consideration of approximately HK\$14.6 million, to be satisfied by the allotment and issue of 44,350,175 ordinary shares of HK\$0.02 each of the Company (the “Consideration Shares”) at an issue price of HK\$0.33 per Consideration Share pursuant to a sales and purchase agreement dated 16 January 2007 (the “Jumplex Acquisition Agreement”) entered into between Bright Asset and Mr. Choi Pui Size (“Mr. Choi”), the sole shareholder of Jumplex;

- (ii) the proposed acquisition of the entire issued share capital of First Choice and the outstanding shareholder's loan at the date of completion of the First Choice Acquisition Agreement at a consideration of approximately HK\$19.5 million, to be satisfied by the allotment and issue of 59,103,859 Consideration Shares at an issue price of HK\$0.33 per Consideration Share pursuant to a sales and purchase agreement dated 16 January 2007 (the "First Choice Acquisition Agreement") entered into between Bright Asset and Ms. Lee Sai Yin ("Ms. Lee"), the sole shareholder of First Choice; and
- (iii) the proposed acquisition of the entire issued share capital of Wise House, at a consideration of approximately HK\$46.3 million, to be satisfied by the allotment and issue of 140,338,246 Consideration Shares at an issue price of HK\$0.33 per Consideration Share pursuant to a sales and purchase agreement dated 16 January 2007 (the "Wise House Acquisition Agreement") entered into between Bright Asset and Mr. Chan Sik Huat Simon ("Mr. Chan") and Mr. Chung Cheuk Wah Sammy ("Mr. Chung"), the shareholders of Wise House.

Pursuant to an acquisition agreement also dated 16 January 2007 (the "2nd Acquisition Agreement"), Bright Asset will conditionally acquire an additional 16% equity interest in the enlarged paid up capital of Mingrunfeng from Mr. Yang at a consideration of approximately HK\$39.0 million, to be satisfied by the allotment and issue of 118,207,720 Consideration Shares at an issue price of HK\$0.33 per Consideration Share. The 2nd Acquisition Agreement will take place within 30 days after (a) Mingrunfeng has obtained the exploration license, being the legal certificate for the entire exploration rights of the Guerbanhada Coal Mine (古爾班哈達煤礦點) in Xilinguolemeng (錫林郭勒盟) of the Inner Mongolia Autonomous Region of the People's Republic of China (the "PRC") (the "Coal Mine"); and (b) the Capital Contribution Agreement has been approved by the relevant government authorities.

Jumplex is a company incorporated in the British Virgin Islands with limited liability on 20 April 2006 and is principally engaged in investment holding. Jumplex holds a 12.24% equity interest in Mingrunfeng as at the date of this report, which will be diluted to 6% upon completion of the Capital Contribution Agreement.

First Choice is a company incorporated in the British Virgin Islands with limited liability on 28 March 2002 and is principally engaged in investment holding. First Choice holds a 16.33% equity interest in Mingrunfeng as at the date of this report, which will be diluted to 8% upon completion of the Capital Contribution Agreement.

Wise House is a company incorporated in the British Virgin Islands with limited liability on 7 July 2004 and is principally engaged in investment holding. Wise House holds a 38.78% equity interest in Mingrunfeng as at the date of this report, which will be diluted to 19% upon completion of the Capital Contribution Agreement.

Mingrunfeng is a company established as a limited liability company in the PRC on 24 September 2003 and had been principally engaged in the trading of construction materials and electrical appliance and the provision of related consultancy services until June 2004. Mingrunfeng commenced its coal exploration and mining business in June 2006 after having entered into a co-operation agreement (the "Co-Operation Agreement") with Xilinguole Guoxin Mines Co., Limited (錫林郭勒國鑫礦業有限公司) ("Guoxin"), the legal owner of an exploration license for the exploration of the Coal Mine.

Upon completion of the Capital Contribution Agreement, the Jumplex Acquisition Agreement, the First Choice Acquisition Agreement, the Wise House Acquisition Agreement and the 2nd Acquisition Agreement, Mingrunfeng will become an indirect wholly owned subsidiary of the Company.

As at the date of this report, no audited financial statements have been prepared for Jumplex since its date of incorporation. We have, however, reviewed all relevant transactions of Jumplex since its date of incorporation to 31 December 2006, and carried out such procedures as we considered necessary. For the purpose of this report, the sole director of Jumplex has prepared the financial statements of Jumplex for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have performed an independent audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA of the Underlying Financial Statements of Jumplex for the Relevant Periods.

First Choice has its financial statements prepared in accordance HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements were audited by Messrs. Tsui Pui Ling, Certified Public Accountant in Hong Kong, for the period from 28 March 2002 (date of incorporation) to 31 December 2005. For the purpose of this report, the sole director of First Choice has prepared the financial statements of First Choice for the Relevant Periods in accordance with HKFRSs (the “Underlying Financial Statements”). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of First Choice for the Relevant Periods.

Wise House has its financial statements prepared in accordance HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements were audited by Messrs. Wong Yun Tung & Co., Certified Public Accountants in Hong Kong, for the period from 7 July 2004 (date of incorporation) to 31 March 2006. For the purpose of this report, the directors of Wise House have prepared the financial statements of Wise House for the Relevant Periods in accordance with HKFRSs (the “Underlying Financial Statements”). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of Wise House for the Relevant Periods.

Mingrunfeng has its statutory financial statements prepared in accordance with the accounting principles and regulations applicable to enterprises established in the PRC. These statutory financial statements were audited by Beijing Chong Yue Zhou CPA Inc (北京中岳洲會計師事務所有限公司) in the PRC for the years ended 31 December 2004, 2005 and 2006. For the purpose of this report, the directors of Mingrunfeng have prepared the financial statements of Mingrunfeng for the Relevant Periods in accordance with HKFRSs (the “Underlying Financial Statements”). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of Mingrunfeng for the Relevant Periods.

We have examined the audited financial statements or, where appropriate, management accounts of Jumplex, First Choice, Wise House and Mingrunfeng for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.304 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information as set out in this report has been prepared from the audited Underlying Financial Statements, or where appropriate, management accounts of Jumplex, First Choice, Wise House and Mingrunfeng, after making such adjustments where appropriate.

The directors of Jumplex, First Choice, Wise House and Mingrunfeng are responsible for the preparation of the Financial Information of Jumplex, First Choice, Wise House and Mingrunfeng, respectively, which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of Jumplex as at 31 December 2006; and of First Choice, Wise House and Mingrunfeng as at 31 December 2004, 2005 and 2006; and of the results and cash flows of Jumplex, First Choice, Wise House and Mingrunfeng for the Relevant Periods.

**I. SIGNIFICANT ACCOUNTING POLICIES****1 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on after 1 January 2005. First Choice, Wise House and Mingrunfeng have early adopted these new and revised HKFRSs in preparing the Financial Information for the period/year ended 31 December 2004. The adoption of these new and revised HKFRSs did not have any significant impact on its results of operations and financial position.

The HKICPA has also issued the following standards and interpretations that are not yet effective. Jumplex, First Choice, Wise House and Mingrunfeng have considered the following standards and interpretations but do not expect they will have a material effect on how the results of operations and financial position of Mingrunfeng are prepared and presented.

HKAS 1 Amendment	Capital disclosures <sup>4</sup>
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures <sup>5</sup>
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation <sup>5</sup>
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transaction <sup>5</sup>
HKAS 39 Amendment	The Fair Value Option <sup>5</sup>
HKAS 39 & HKFRS4 Amendment	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts <sup>5</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>5</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>4</sup>
HK(IFRIC) – INT 4	Determining whether an Arrangement contains a Lease <sup>5</sup>
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>5</sup>
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>6</sup>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>1</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 December 2005

**2 BASIS OF PRESENTATION AND GOING CONCERN**

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

As at 31 December 2006, Jumplex had net current liabilities and deficiency in assets of HK\$81,000 and HK\$20,000, respectively. In preparing the Financial Information, the sole director of Jumplex has given careful consideration to the current and anticipated future liquidity of Jumplex, particularly the proposed acquisition of the entire issued share capital of Jumplex and the shareholder's loan by Bright Asset pursuant to the Jumplex Acquisition Agreement. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should financial support from Bright Asset is not obtained.

As at 31 December 2006, First Choice had net current liabilities and deficiency in assets of HK\$137,000 and HK\$55,000, respectively. In preparing the Financial Information, the sole director of First Choice has given careful consideration to the current and anticipated future liquidity of First Choice, particularly the proposed acquisition of the entire issued share capital of First Choice and the shareholder's loan by Bright Asset pursuant to the First Choice Acquisition Agreement. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should financial support from Bright Asset is not obtained.

As at 31 December 2006, Mingrunfeng had net current liabilities and deficiency in assets of HK\$25,954,000 and HK\$2,040,000, respectively. In preparing the Financial Information, the directors of Mingrunfeng have given careful consideration to the current and anticipated future liquidity of Mingrunfeng, particularly the contribution of RMB20 million to the capital of Mingrunfeng in return for its enlarged 51% equity interest pursuant to the Capital Contribution Agreement and the provision of a revolving loan facility of up to RMB40 million by Bright Asset pursuant to a loan facility agreement dated 22 September 2006. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should financial support from Bright Asset is not obtained.



**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES****Related parties**

A party is considered to be related to Jumplex, First Choice, Wise House and Mingrunfeng if:

- (i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, Jumplex, First Choice, Wise House and Mingrunfeng; (2) has an interest in Jumplex, First Choice, Wise House and Mingrunfeng that gives it significant influence over Jumplex, First Choice, Wise House and Mingrunfeng; or (3) has joint control over Jumplex, First Choice, Wise House and Mingrunfeng;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of Jumplex, First Choice, Wise House and Mingrunfeng or their parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv); or
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v).

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rate used for this purpose is 20% for furniture and equipment.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement account in the period in which it arises.

### **Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Jumplex, First Choice, Wise House and Mingrunfeng is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

### **Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. Jumplex, First Choice, Wise House and Mingrunfeng determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that Jumplex, First Choice, Wise House and Mingrunfeng commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

**Impairment of financial assets**

Jumplex, First Choice, Wise House and Mingrunfeng assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

Jumplex, First Choice, Wise House and Mingrunfeng first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

### **Financial liabilities**

The financial liabilities of Jumplex, First Choice, Wise House and Mingrunfeng include borrowings, trade payable, accruals and other payables, deposit received and amount due to a director.

Financial liabilities are recognised when Jumplex, First Choice, Wise House and Mingrunfeng becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expenses in finance cost in the income statement.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

**Intangible assets (other than goodwill)**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

**Cash and cash equivalents**

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Jumplex, First Choice, Wise House and Mingrunfeng's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except: where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to Jumplex, First Choice, Wise House and Mingrunfeng and when the revenue can be measured reliably, on the following basis:

- (a) from the rendering of consultancy services, when the service is rendered and completed;
- (b) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the customers, provided that Jumplex, First Choice, Wise House and Mingrunfeng maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Retirement benefits costs**

The employees of Jumplex, First Choice, Wise House and Mingrunfeng in the PRC is a member of a state-sponsored retirement plan operated by the local government in the PRC and it makes mandatory contributions to the state-sponsored retirement plan to fund the employee retirement benefits. The retirement contributions paid by Jumplex, First Choice, Wise House and Mingrunfeng is based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and is charged to its respective income statements as incurred. Jumplex, First Choice, Wise House and Mingrunfeng discharges its respective retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

**Foreign currencies**

These financial information are presented in Hong Kong Dollar, which is Jumplex, First Choice and Wise House's functional and presentation currency. Mingrunfeng has Renminbi as its functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS****Judgements**

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Useful lives of property, plant & equipment and intangible assets*

The management of Jumplex, First Choice, Wise House and Mingrunfeng determines the estimated useful lives and related depreciation/amortization charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation/amortization charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

*Impairment of intangible asset*

Jumplex, First Choice, Wise House and Mingrunfeng determines whether intangible asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible asset is allocated. Estimating the value in use requires Jumplex, First Choice, Wise House and Mingrunfeng to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Mingrunfeng had an intangible asset with a carrying value of HK\$23,885,000 as at 31 December 2006. More details of the intangible asset are stated in note 10 to the financial information of Mingrunfeng.

*Estimated fair value of financial assets*

The estimation of fair value of financial assets required Jumplex, First Choice, Wise House and Mingrunfeng to estimate the future market value expected to be received from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.



## II. FINANCIAL INFORMATION

## A. FINANCIAL INFORMATION OF JUMPLEX

## INCOME STATEMENT

	<i>Notes</i>	<b>Period from 20 April 2006 (date of incorporation) to 31 December 2006 HK\$'000 Audited</b>
<b>REVENUE</b>		–
Cost of sales		–
		<hr/>
Gross profit		–
General and administrative expenses		(20)
		<hr/>
<b>LOSS BEFORE TAXATION</b>	2	(20)
Taxation	4	–
		<hr/>
<b>LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF JUMPLEX</b>		<b>(20)</b>
		<hr/> <hr/>
<b>DIVIDENDS</b>		<b>NIL</b>
		<hr/> <hr/>

## BALANCE SHEET

	<i>Notes</i>	<b>31 December 2006</b> <i>HK\$'000</i> Audited
<b>NON-CURRENT ASSET</b>		
Available for sale investment	5	61
<b>CURRENT LIABILITIES</b>		
Other payables and accruals		62
Due to a shareholder	6	19
<b>NET CURRENT LIABILITIES</b>		(81)
<b>NET LIABILITIES</b>		(20)
<b>DEFICIENCY IN ASSETS</b>		
Share capital	7	–
Reserves		(20)
		(20)

## STATEMENT OF CHANGES IN EQUITY

	<b>Issued capital</b> <i>HK\$'000</i> Audited	<b>Accumulated losses</b> <i>HK\$'000</i> Audited	<b>Total</b> <i>HK\$'000</i> Audited
Issue of share upon incorporation	–	–	–
Loss for the period	–	(20)	(20)
At 31 December 2006	–	(20)	(20)

## CASH FLOW STATEMENT

Period from  
20 April 2006 (date of  
incorporation) to  
31 December  
2006  
HK\$'000  
Audited

**Cash flows from operating activities**

Loss before taxation	(20)
Increase in other payables and accruals	1
	<hr/>
Net cash used in operating activities	(19)

**Cash flows from financing activities**

Proceed from issue of share	–
Increase in amount due to a shareholder	19
	<hr/>
Net cash generated from financing activities	19

**Net increase in cash and cash equivalents**

Cash and cash equivalents at beginning of period	–
	<hr/>

**Cash and cash equivalents at end of period**

	–
	<hr/> <hr/>

**Analysis of balances of cash and cash equivalents**

Cash and bank balances	–
	<hr/> <hr/>

## NOTES TO FINANCIAL INFORMATION OF JUMPLEX

## 1. GENERAL

Jumplex is incorporated in British Virgin Islands with limited liability on 20 April 2006 under the name of Jumplex Investments Limited. Pursuant to a resolution in writing of the director of Jumplex passed on 15 September 2006, the name of Jumplex was changed to Jumplex Investments Limited (俊邦投資有限公司). Its registered office and principal place of business is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong Dollar ("HK\$") which is the same as the functional currency of Jumplex.

Jumplex was principally engaged in investment holding.

## 2. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	<b>Period from 20 April 2006 (date of incorporation) to 31 December 2006</b>
	<i>HK\$'000</i>
	Audited
Auditors' remuneration	—

## 3. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors and senior management of Jumplex received any emoluments in respect of their services to the Company during the Relevant Periods.

## 4. TAXATION

No provision for Hong Kong profits tax and PRC corporate income tax has been made as Jumplex had no assessable profits arising from Hong Kong and the PRC during the Relevant Periods.

The reconciliation between Jumplex's loss before taxation and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	<b>Period from 20 April 2006 (date of incorporation) to 31 December 2006</b>	
	<i>HK\$'000</i>	%
Loss before tax for the period	(20)	
Tax calculated at the applicable tax rate of 33%	(7)	33%
Expenses not deductible for tax	7	(33%)
Tax charge	—	N/A

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet date.

## 5. AVAILABLE FOR SALE INVESTMENT

	<b>31 December 2006</b> <i>HK\$'000</i> Audited
Unlisted shares, at cost	61
Less: Impairment loss	—
	<hr/>
At balance sheet date, net of impairment loss	<b>61</b>
	<hr/> <hr/>

Particulars of available for sale investment are as follows:

Name	Particulars of interest in paid up capital	Place of registration	Percentage of equity interest attributable to Jumplex	Principal activities
Mingrunfeng	RMB61,200	PRC	12.24%*	Coal exploration and mining business

\* Pursuant to the Capital Contribution Agreement entered into between Jumplex, First Choice, Wise House, Mr. Yang and Bright Asset dated 2 September 2006, Bright Asset will contribute RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest of Mingrunfeng. Upon completion of the Capital Contribution Agreement, Jumplex's interest in Mingrunfeng will be diluted to 6%.

## 6. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

## 7. SHARE CAPITAL

	<b>31 December 2006</b> <i>HK\$'000</i> Audited
Authorised:	
50,000 ordinary shares of US\$1.00 each	390
	<hr/> <hr/>
Issued and fully paid:	
1 ordinary share of US\$1.00 each	—
	<hr/> <hr/>

On incorporation, Jumplex's authorised capital was US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each, of which 1 share of US\$1 each was issued at par for cash as a subscriber share.

**8. CONTINGENT LIABILITIES**

- (a) On 10 November 2006, Jumplex entered into a loan agreement with Mingrunfeng, Mr. Yang, First Choice and Wise House. Pursuant to the loan agreement, Mr. Yang had provided a loan of RMB1,000,000 to Mingrunfeng which bears interest at a monthly rate of 1.5%, is unsecured and is jointly guaranteed by Jumplex, First Choice and Wise House. The loan is original repayable on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007.
- (b) On 16 November 2006, Jumplex further entered into three loan facility agreements with Lender B, an independent third party, Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to these loan agreements, Lender B agreed to provide loans of RMB1,000,000, RMB1,000,000 and RMB2,000,000 to Mingrunfeng which bear interest at a monthly rate of 1.6%, 1.5% and 1.5%, respectively and are repayable within three months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the balance sheet date, an aggregate loan amount of RMB2,500,000 had been drawn down by Mingrunfeng of which RMB1,000,000, RMB1,000,000, and RMB500,000 are original due for repayment on or before 17 February 2007, 2 March 2007 and 22 March 2007, respectively. Subsequent to the balance sheet date, further amounts of RMB500,000 and RMB1,000,000 were drawn by Mingrunfeng which are due for repayment on or before 8 April 2007 and 27 June 2007, respectively. Pursuant to a supplemental agreement dated 20 January 2007, the repayment dates of the loans are extended for three months to 17 May 2007, 2 June 2007, 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

Save as disclosed above, Jumplex did not have other significant contingent liabilities as at the balance sheet date.

**9. SIGNIFICANT POST BALANCE SHEET EVENTS**

- (a) On 16 January 2007, Mr. Choi, the sole shareholder of Jumplex, entered into the Jumplex Acquisition Agreement with Bright Asset for disposal of the entire issued share capital in Jumplex and the outstanding shareholder's loan at the date of completion of the Jumplex Acquisition Agreement to Bright Asset at a consideration of HK\$14.6 million. Upon completion of the Jumplex Acquisition Agreement, Jumplex will become a wholly owned subsidiary of Bright Asset.
- (b) On 20 January 2007, Jumplex entered into a loan facility agreement with Lender A, an independent third party, with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreement, Lender A has provided a loan in the amount of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.
- (c) On 19 March 2007, Jumplex further entered into two loan facility agreements with Lender A and Lender C, an independent third party with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, Jumplex did not have other significant subsequent events took place subsequent to 31 December 2006.

**10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Jumplex is exposed to various kinds of risks in its operation and financial instruments. Jumplex's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on Jumplex by closely monitoring the individual investing as follows:

**(a) Liquidity risk**

The shareholder and director of Jumplex has indicated his willingness to continue financing the operations of Jumplex in order to fund any emergency liquidity requirement.

**(b) Cash flows and fair value interest rate risk**

Jumplex has no significant interest-bearing financial assets and liabilities. Jumplex's results and operating cash flows are substantially independent of changes in market interest rates.

**(c) Foreign exchange risk**

Jumplex does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

**11. SUBSEQUENT FINANCIAL STATEMENT**

No audited financial statements have been prepared for Jumplex in respect of any period subsequent to 31 December 2006.

## B. FINANCIAL INFORMATION OF FIRST CHOICE

## INCOME STATEMENT

		Year ended 31 December		
		2004	2005	2006
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		Audited	Audited	Audited
<b>REVENUE</b>		–	–	–
Cost of sales		–	–	–
		–	–	–
Gross profit		–	–	–
General and administrative expenses		(5)	(15)	(22)
<b>LOSS BEFORE TAXATION</b>	2	(5)	(15)	(22)
Taxation	4	–	–	–
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF FIRST CHOICE</b>		<u>(5)</u>	<u>(15)</u>	<u>(22)</u>
<b>DIVIDENDS</b>		<u>NIL</u>	<u>NIL</u>	<u>NIL</u>



## BALANCE SHEET

31 December

		<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		Audited	Audited	Audited
<b>NON-CURRENT ASSET</b>				
Available for sale investment	5	–	–	82
<b>CURRENT ASSETS</b>				
Loan to a third party	6	619	619	619
Cash and bank balances		–	–	83
		<u>619</u>	<u>619</u>	<u>702</u>
<b>CURRENT LIABILITIES</b>				
Other payables and accruals		–	–	86
Due to a shareholder	7	637	652	753
		<u>637</u>	<u>652</u>	<u>839</u>
<b>NET CURRENT LIABILITIES</b>		<u>(18)</u>	<u>(33)</u>	<u>(137)</u>
<b>NET LIABILITIES</b>		<u>(18)</u>	<u>(33)</u>	<u>(55)</u>
<b>DEFICIENCY IN ASSETS</b>				
Share capital	8	–	–	–
Reserves		(18)	(33)	(55)
		<u>(18)</u>	<u>(33)</u>	<u>(55)</u>

## STATEMENT OF CHANGES IN EQUITY

	<b>Issued capital</b> <i>HK\$'000</i> Audited	<b>Accumulated losses</b> <i>HK\$'000</i> Audited	<b>Total</b> <i>HK\$'000</i> Audited
At 31 December 2003 and 1 January 2004	–	(13)	(13)
Loss for the year	–	(5)	(5)
At 31 December 2004 and 1 January 2005	–	(18)	(18)
Loss for the year	–	(15)	(15)
At 31 December 2005 and 1 January 2006	–	(33)	(33)
Loss for the year	–	(22)	(22)
At 31 December 2006	–	(55)	(55)

## CASH FLOW STATEMENT

	Year ended 31 December		
	2004 <i>HK\$'000</i> Audited	2005 <i>HK\$'000</i> Audited	2006 <i>HK\$'000</i> Audited
<b>Cash flows from operating activities</b>			
Loss before taxation	(5)	(15)	(22)
Increase in other payables and accrual	–	–	4
Net cash used in operating activities	<u>(5)</u>	<u>(15)</u>	<u>(18)</u>
<b>Cash flows from financing activities</b>			
Increase in amount due to a shareholder	5	15	101
Net cash generated from financing activities	<u>5</u>	<u>15</u>	<u>101</u>
<b>Net increase in cash and cash equivalents</b>	–	–	83
Cash and cash equivalents at beginning of year	–	–	–
<b>Cash and cash equivalents at end of year</b>	<u>–</u>	<u>–</u>	<u>83</u>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	<u>–</u>	<u>–</u>	<u>83</u>

## NOTES TO FINANCIAL INFORMATION OF FIRST CHOICE

## 1. GENERAL

First Choice is incorporated in British Virgin Islands with limited liability on 28 March 2002 under the name of First Choice Resources Limited. Pursuant to a resolution in writing of the director of First Choice passed on 18 September 2006, the name of First Choice was changed to First Choice Resources Limited (飛彩資源有限公司). Its registered office and principal place of business is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong Dollar ("HK\$") which is the same as the functional currency of First Choice.

First Choice was principally engaged in investment holding.

## 2. LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging the following:

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Auditors' remuneration	–	5	–
Bank interest income	(4)	(2)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>

## 3. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors and senior management of First Choice received any emoluments in respect of their services to the Company during the Relevant Period.

## 4. TAXATION

No provision for Hong Kong profits tax and PRC corporate income tax has been made as First Choice had no assessable profits arising from Hong Kong and the PRC during the Relevant Periods.

The reconciliation between First Choice's loss before taxation and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Year ended 31 December					
	2004		2005		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(5)</u>		<u>(15)</u>		<u>(22)</u>	
Tax calculated at the applicable tax rate of 33%	(2)	33	(5)	33	(7)	33
Expenses not deductible for tax	<u>2</u>	<u>(33)</u>	<u>5</u>	<u>(33)</u>	<u>7</u>	<u>(33)</u>
Tax charge	<u>-</u>	<u>N/A</u>	<u>-</u>	<u>N/A</u>	<u>-</u>	<u>N/A</u>

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet dates.

#### 5. AVAILABLE FOR SALE INVESTMENT

	31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	-	-	82
Less: Impairment loss	<u>-</u>	<u>-</u>	<u>-</u>
At balance sheet date, net of impairment loss	<u>-</u>	<u>-</u>	<u>82</u>

Particulars of available for sale investment are as follows:

Name	Particulars of interest in paid up capital	Place of registration	Percentage of equity interest attributable to First Choice	Principal activities
Mingrunfeng	RMB81,650	PRC	16.33%*	Coal exploration and mining business

\* Pursuant to the Capital Contribution Agreement entered into between First Choice, Jumplex, Wise House, Mr. Yang and Bright Asset dated 2 September 2006, Bright Asset will contribute RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest of Mingrunfeng. Upon completion of the Capital Contribution Agreement, First Choice's interest in Mingrunfeng will be diluted to 8%.

**6. LOAN TO A THIRD PARTY**

The loan was provided by First Choice to a third party and was interest-free, unsecured and originally due for repayment on 31 December 2002. The loan to the third party was fully recovered subsequent to the balance sheet date on 13 February 2007.

**7. DUE TO A SHAREHOLDER**

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

**8. SHARE CAPITAL**

HK\$'000  
Audited

Authorised:

50,000 ordinary shares of US\$1.00 each  
as at 31 December 2004, 2005 and 2006

390

Issued and fully paid:

1 ordinary share of US\$1.00 each  
as at 31 December 2004, 2005 and 2006

—

On incorporation, First Choice's authorised capital was US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each, of which 1 share of US\$1 each was issued at par for cash on incorporation as a subscriber share.

**9. CONTINGENT LIABILITIES**

- (a) On 10 November 2006, First Choice entered into a loan agreement with Mingrunfeng, Mr. Yang, Jumplex and Wise House. Pursuant to the loan agreement, Mr. Yang had provided a loan of RMB1,000,000 to Mingrunfeng which bears interest at monthly rate of 1.5%, is unsecured and is jointly guaranteed by First Choice, Jumplex and Wise House. The loan is original repayable on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007.
- (b) On 16 November 2006, First Choice further entered into three loan facility agreements with Lender B, independent third party, Mingrunfeng, Jumplex, Wise House and Mr. Yang. Pursuant to these loan agreements, Lender B agreed to provide loans of RMB1,000,000, RMB1,000,000 and RMB2,000,000 to Mingrunfeng which bear interest at a monthly rate of 1.6%, 1.5% and 1.5%, respectively and are repayable within three months from the drawn down date. The loans are unsecured and are jointly guaranteed by First Choice, Jumplex, Wise House and Mr. Yang. As at balance sheet date, an aggregate loan amount of RMB2,500,000 had been drawn down by Mingrunfeng of which RMB1,000,000, RMB1,000,000, and RMB500,000 are original due for repayment on or before 17 February 2007, 2 March 2007 and 22 March 2007, respectively. Subsequent to the balance sheet date, further amounts of RMB500,000 and RMB1,000,000 were drawn by Mingrunfeng which are due for repayment on or before 8 April 2007 and 27 June 2007, respectively. Pursuant to a supplemental agreement dated 20 January 2007, the repayment dates of the loans are extended for three months to 17 May 2007, 2 June 2007, 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

Save as disclosed above, First Choice did not have other significant contingent liabilities as at the balance sheet dates.

**10. SIGNIFICANT POST BALANCE SHEET EVENTS**

- (a) On 16 January 2007, Ms. Lee, the sole shareholder of First Choice, entered into the First Choice Acquisition Agreement with Bright Asset for disposal of the entire issued share capital in First Choice and the outstanding shareholder's loan at the date of completion of the First Choice Acquisition Agreement to Bright Asset at a consideration of HK\$19.5 million. Pursuant to the First Choice Acquisition Agreement, among other things, Bright Asset has undertaken Ms. Lee to procure First Choice to repay Ms. Lee an amount of HK\$619,000 upon recovery of a third party loan due to First Choice (note 6). Upon completion of the First Choice Acquisition Agreement, First Choice will become a wholly owned subsidiary of Bright Asset.
- (b) On 20 January 2007, First Choice entered into a loan facility agreement with Lender A, an independent third party, with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreement, Lender A has provided a loan in the amount of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by First Choice, Jumplex, Wise House and Mr. Yang.
- (c) On 19 March 2007, First Choice further entered into two loan facility agreements with Lender A and Lender C, an independent third party, with Mingrunfeng, Jumplex, Wise House and Mr. Yang. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by First Choice, Jumplex, Wise House and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, First Choice did not have other significant subsequent events took place subsequent to 31 December 2006.

**11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

First Choice is exposed to various kinds of risks in its operation and financial instruments. First Choice's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on First Choice by closely monitoring the individual investing as follows:

**(a) Credit risk**

First Choice's credit risk is primarily attributable to bank balances. All the bank balances were made with financial institutions with high-credit quality.

**(b) Liquidity risk**

The shareholder and director of First Choice have indicated his willingness to continue financing the operations of First Choice in order to fund any emergency liquidity requirement.

**(c) Cash flows and fair value interest rate risk**

First Choice has no significant interest-bearing financial assets and liabilities. First Choice's results and operating cash flows are substantially independent of changes in market interest rates.

**(d) Foreign exchange risk**

First Choice does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

**12. SUBSEQUENT FINANCIAL STATEMENT**

No audited financial statements have been prepared for First Choice in respect of any period subsequent to 31 December 2006.

## C. FINANCIAL INFORMATION OF WISE HOUSE

## INCOME STATEMENT

		Period from 7 July 2004 (date of incorporation) to 31 December		
		2004	Year ended 31 December	
	Notes	2004 HK\$'000 Audited	2005 HK\$'000 Audited	2006 HK\$'000 Audited
<b>REVENUE</b>		–	–	–
Cost of sales		–	–	–
		<hr/>	<hr/>	<hr/>
Gross profit		–	–	–
General and administrative expenses		(6)	(9)	(38)
		<hr/>	<hr/>	<hr/>
<b>LOSS BEFORE TAXATION</b>	2	(6)	(9)	(38)
Taxation	5	–	–	–
		<hr/>	<hr/>	<hr/>
<b>LOSS FOR THE PERIOD/ YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF WISE HOUSE</b>		<u>(6)</u>	<u>(9)</u>	<u>(38)</u>
<b>DIVIDENDS</b>		<u>NIL</u>	<u>NIL</u>	<u>NIL</u>



## BALANCE SHEET

	<i>Notes</i>	<b>31 December</b>		
		<b>2004</b>	<b>2005</b>	<b>2006</b>
		<i>HK\$'000</i> Audited	<i>HK\$'000</i> Audited	<i>HK\$'000</i> Audited
<b>NON-CURRENT ASSET</b>				
Interest in an associate	5	–	–	194
<b>CURRENT ASSETS</b>				
Due from shareholders	6	273	273	238
Cash and bank balances		2	2	–
		<u>275</u>	<u>275</u>	<u>238</u>
<b>CURRENT LIABILITIES</b>				
Other payables and accruals		–	9	204
		<u>275</u>	<u>266</u>	<u>34</u>
<b>NET CURRENT ASSETS</b>				
		<u>275</u>	<u>266</u>	<u>34</u>
<b>NET ASSETS</b>				
		<u><u>275</u></u>	<u><u>266</u></u>	<u><u>228</u></u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	7	281	281	281
Reserves		(6)	(15)	(53)
		<u>275</u>	<u>266</u>	<u>228</u>
		<u><u>275</u></u>	<u><u>266</u></u>	<u><u>228</u></u>

## STATEMENT OF CHANGES IN EQUITY

	<b>Issued capital</b> <i>HK\$'000</i> Audited	<b>Accumulated losses</b> <i>HK\$'000</i> Audited	<b>Total</b> <i>HK\$'000</i> Audited
Issue of shares upon incorporation	281	–	281
Loss for the period	–	(6)	(6)
At 31 December 2004 and 1 January 2005	281	(6)	275
Loss for the year	–	(9)	(9)
At 31 December 2005 and 1 January 2006	281	(15)	266
Loss for the year	–	(38)	(38)
At 31 December 2006	<u>281</u>	<u>(53)</u>	<u>228</u>

## CASH FLOW STATEMENT

	Period from	Year ended 31 December	
	7 July 2004 (date of incorporation) to 31 December	2005	2006
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
<b>Cash flows from operating activities</b>			
Loss before taxation	(6)	(9)	(38)
Increase in other payables and accruals	–	9	1
Net cash used in operating activities	(6)	–	(37)
<b>Cash flows from investing activities</b>			
(Increase)/decrease in amount due from shareholders	(273)	–	35
Net cash generated from/(used in) investing activities	(273)	–	35
<b>Cash flows from financing activities</b>			
Proceed from issue of shares	281	–	–
Net cash generated from financing activities	281	–	–
<b>Net increase/(decrease) in cash and cash equivalents</b>	2	–	(2)
Cash and cash equivalents at beginning of period/year	–	2	2
<b>Cash and cash equivalents at end of period/year</b>	2	2	–
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	2	2	–

## NOTES TO FINANCIAL INFORMATION OF WISE HOUSE

## 1. GENERAL

Wise House is incorporated in British Virgin Islands with limited liability on 7 July 2004 under the name of Wise House Limited. Pursuant to a resolution in writing of the directors of Wise House passed on 16 September 2006, the name of Wise House was changed to Wise House Limited (滿屋投資控股有限公司). Its registered office and principal place of business is located at Drake Chambers, Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong Dollar ("HK\$") which is the same as the functional currency of Wise House.

Wise House was principally engaged in investment holding.

## 2. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Period from 7 July 2004 (date of registration) to 31 December	Year ended 31 December	
	2004 HK\$'000 Audited	2005 HK\$'000 Audited	2006 HK\$'000 Audited
Auditors' remuneration	—	4	—

## 3. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors and senior management of Wise House received any emoluments in respect of their services to the Company during the Relevant Period.

## 4. TAXATION

No provision for Hong Kong profits tax and PRC corporate income tax has been made as Wise House had no assessable profits arising from Hong Kong and the PRC during the Relevant Periods.

The reconciliation between Wise House's loss before taxation and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Period from 7 July 2004 (date of registration) to 31 December		Year ended 31 December			
	2004		2005		2006	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(6)</u>		<u>(9)</u>		<u>(38)</u>	
Tax calculated at the applicable tax rate of 33%	(2)	33	(3)	33	(13)	33
Expenses not deductible for tax	<u>2</u>	<u>(33)</u>	<u>3</u>	<u>(33)</u>	<u>13</u>	<u>(33)</u>
Tax charge	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet dates.

#### 5. INTEREST IN AN ASSOCIATE

	31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Unlisted shares, at cost	-	-	194
Less: Impairment loss	<u>-</u>	<u>-</u>	<u>-</u>
At balance sheet date, net of impairment loss	<u>-</u>	<u>-</u>	<u>194</u>

Particulars of interest in an associate are as follows:

Name	Particulars of interest in paid up capital	Place of registration	Percentage of equity interest attributable to Wise House	Principal activities
Mingrunfeng	RMB193,900	PRC	38.78%*	Coal exploration and mining business

\* Pursuant to the Capital Contribution Agreement entered into between Wise House, Jumplex, First Choice, Mr. Yang and Bright Asset dated 2 September 2006, Bright Asset will contribute RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest of Mingrunfeng. Upon completion of the Capital Contribution Agreement, Wise House's interest in Mingrunfeng will be diluted to 19%.

## 6. DUE FROM SHAREHOLDERS

Name of shareholders	31 December			Maximum amount due from shareholders		
				During the period/year ended		
	2004	2005	2006	31 December		
	HK\$'000	HK\$'000	HK\$'000	2004	2005	2006
	Audited	Audited	Audited	HK\$'000	HK\$'000	HK\$'000
Chan Aik Huat, Simon	172	172	150	177	172	172
Chung Cheuk Wah, Sammy	101	101	88	104	101	101
	<u>273</u>	<u>273</u>	<u>238</u>			

The amount due from shareholders are unsecured, interest-free and has no fixed terms of repayment.

## 7. SHARE CAPITAL

	HK\$'000
	Audited
Authorised:	
50,000 ordinary shares of US\$1.00 each as at 31 December 2004, 2005 and 2006	<u>390</u>
Issued and fully paid:	
36,000 ordinary shares of US\$1.00 each as at 31 December 2004, 2005 and 2006	<u>281</u>

On incorporation, Wise House's authorised capital was US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each, of which 36,000 shares of US\$1 each were issued at par for cash on incorporation as subscriber shares.

## 8. CONTINGENT LIABILITIES

- (a) On 10 November 2006, Wise House entered into a loan agreement with Mingrunfeng, Mr. Yang, Jumplex and First Choice. Pursuant to the loan agreement, Mr. Yang agreed to provide a loan of RMB1,000,000 to Mingrunfeng which bears interest at monthly rate of 1.5%, is unsecured and is jointly guaranteed by Wise House, Jumplex and First Choice. The loan is original repayable on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007.

- (b) On 16 November 2006, Wise House further entered into three loan facility agreements with Lender B, an independent third party, Mingrunfeng, Jumplex, First Choice and Mr. Yang. Pursuant to these loan agreements, Lender B agreed to provide loans of RMB1,000,000, RMB1,000,000 and RMB2,000,000 to Mingrunfeng which bear interest at a monthly rate of 1.6%, 1.5% and 1.5%, respectively and are repayable within three months from the drawn down date. The loans are unsecured and are jointly guaranteed by Wise House, Jumplex, First Choice and Mr. Yang. As at the balance sheet date, an aggregate loan amount of RMB2,500,000 had been drawn down by Mingrunfeng of which RMB1,000,000, RMB1,000,000 and RMB500,000 are original due for repayment on or before 17 February 2007, 2 March 2007 and 22 March 2007, respectively. Subsequent to the balance sheet date, further amounts of RMB500,000 and RMB1,000,000 were drawn by Mingrunfeng which are due for repayment on or before 8 April 2007 and 27 June 2007, respectively. Pursuant to a supplemental agreement dated 20 January 2007, the repayment dates of the loans are extended for three months to 17 May 2007, 2 June 2007, 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

Save as disclosed above, Wise House did not have significant contingent liabilities as at the balance sheet dates.

#### 9. SIGNIFICANT POST BALANCE SHEET EVENTS

- (a) On 16 January 2007, Mr. Chan and Mr. Chung, the shareholders of Wise House, entered into the Wise House Acquisition Agreement with Bright Asset for disposal of the entire issued share capital in Wise House to Bright Asset at a consideration of HK\$46.3 million. Upon completion of the Wise House Acquisition Agreement, Wise House will become a wholly owned subsidiary of Bright Asset.
- (b) On 20 January, Wise House entered into a loan facility agreement with Lender A, an independent third party, with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreement, Lender A has provided a loan in the amount of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by Wise House, Jumplex, First Choice and Mr. Yang.
- (c) On 19 March 2007, Wise House further entered into two loan facility agreements with Lender A and Lender C, an independent third party, with Mingrunfeng, Jumplex, First Choice and Mr. Yang. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Wise House, Jumplex, First Choice and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, Wise House did not have other significant subsequent events took place subsequent to 31 December 2006.

#### 10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Wise House is exposed to various kinds of risks in its operation and financial instruments. Wise House's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on First Choice by closely monitoring the individual investing as follows:

**(a) Credit risk**

Wise House's credit risk is primarily attributable to bank balances and amount due from shareholder(s). All the bank balances were made with financial institutions with high-credit quality.

**(b) Liquidity risk**

Wise House manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

**(c) Cash flows and fair value interest rate risk**

Wise House has no significant interest-bearing financial assets and liabilities. Wise House's results and operating cash flows are substantially independent of changes in market interest rates.

**(d) Foreign exchange risk**

Wise House does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

**11. SUBSEQUENT FINANCIAL STATEMENT**

No audited financial statements have been prepared for Wise House in respect of any period subsequent to 31 December 2006.



## D. FINANCIAL INFORMATION OF MINGRUNFENG

## INCOME STATEMENT

	Notes	Year ended 31 December		
		2004	2005	2006
		HK\$'000	HK\$'000	HK\$'000
		Audited	Audited	Audited
<b>REVENUE</b>	2	67	–	–
Cost of sales		–	–	–
Gross profit		67	–	–
Other income	2	4	2	5
General and administrative expenses		(174)	(203)	(1,395)
Finance costs	5	–	–	(809)
<b>LOSS BEFORE TAXATION</b>	4	(103)	(201)	(2,199)
Taxation	8	–	–	–
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF MINGRUNFENG</b>		<b>(103)</b>	<b>(201)</b>	<b>(2,199)</b>
<b>DIVIDENDS</b>		<b>–</b>	<b>–</b>	<b>–</b>

\* *The results of Mingrunfeng for the year ended 31 December 2004 were solely related to the trading of construction materials and electrical appliance and the provision of related consultancy services which had been discontinued in June 2004.*

*The results of Mingrunfeng for the year ended 31 December 2006 were solely related to the exploration of coal.*

## BALANCE SHEET

		31 December		
		2004	2005	2006
Notes		HK\$'000	HK\$'000	HK\$'000
		Audited	Audited	Audited
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	9	34	25	29
Intangible assets	10	–	–	23,885
		34	25	23,914
<b>CURRENT ASSETS</b>				
Other receivables		15	15	–
Due from a director	11	–	–	788
Cash and bank balances		489	311	458
		504	326	1,246
<b>CURRENT LIABILITIES</b>				
Trade payables	12	–	–	5,585
Other payables and accruals		16	1	1,115
Deposit received	13	–	–	15,000
Other loans	14	–	–	4,500
Due to a director	11	162	191	–
Loan from a director	15	–	–	1,000
		178	192	27,200
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>		326	134	(25,954)
<b>NET ASSETS/(LIABILITIES)</b>		360	159	(2,040)
<b>SHAREHOLDERS' EQUITY/ (DEFICIENCY IN ASSETS)</b>				
Paid-up capital	16	500	500	500
Reserves		(140)	(341)	(2,540)
		360	159	(2,040)

## STATEMENT OF CHANGES IN EQUITY

	<b>Paid-up capital</b> <i>HK\$'000</i> Audited	<b>Accumulated losses</b> <i>HK\$'000</i> Audited	<b>Total</b> <i>HK\$'000</i> Audited
At 1 January 2004	500	(37)	463
Loss for the year	—	(103)	(103)
At 31 December 2004 and 1 January 2005	500	(140)	360
Loss for the year	—	(201)	(201)
At 31 December 2005 and 1 January 2006	500	(341)	159
Loss for the year	—	(2,199)	(2,199)
At 31 December 2006	<u>500</u>	<u>(2,540)</u>	<u>(2,040)</u>

## CASH FLOW STATEMENT

	Year ended 31 December		
	2004 HK\$'000 Audited	2005 HK\$'000 Audited	2006 HK\$'000 Audited
<b>Cash flows from operating activities</b>			
Loss before taxation	(103)	(201)	(2,199)
Adjustments for:			
Interest income	(4)	(2)	(5)
Interest expenses	–	–	809
Depreciation	5	9	7
Operating cash flows before working capital changes	(102)	(194)	(1,388)
Decrease in other receivables	–	–	15
Increase in amount due from a director	–	–	(788)
Increase/(decrease) in other payables and accruals	16	(15)	305
Increase/(decrease) in amount due to a director	(338)	29	(191)
Cash used in operation	(439)	(180)	(2,047)
Interest received	4	2	5
Net cash used in operating activities	(435)	(178)	(2,042)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(39)	–	(11)
Acquisition of intangible assets	–	–	(18,300)
Net cash used in investing activities	(39)	–	(18,311)
<b>Cash flows from financing activities</b>			
Paid up capital	–	–	–
Deposit received	–	–	15,000
New other loans obtained	–	–	17,500
Loan from a director	–	–	1,000
Other loans repaid	–	–	(13,000)
Net cash generated from financing activities	–	–	20,500
<b>Net increase/(decrease) in cash and cash equivalents</b>	(474)	(178)	147
Cash and cash equivalents at beginning of year	963	489	311
<b>Cash and cash equivalents at end of year</b>	<b>489</b>	<b>311</b>	<b>458</b>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	489	311	458

## NOTES TO FINANCIAL INFORMATION OF MINGRUNFENG

## 1. GENERAL

Mingrunfeng is established and registered in the PRC with limited liability on 24 September 2003.

The Financial Information is presented in Hong Kong Dollar ("HK\$") and its functional currency is Renminbi.

Mingrunfeng was principally engaged in the trading of construction materials and electrical appliance and the provision of related consultancy services until June 2004. Mingrunfeng commenced its business of exploring and mining of coal in June 2006.

## 2. REVENUE AND OTHER INCOME

Revenue, which is also Mingrunfeng's turnover, represents the invoiced value of services rendered and goods sold, after deducting goods returns, trade discounts and sale tax.

Revenue and other income consisted of:

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Revenue:			
Sales of construction materials and electric appliance	11	–	–
Consultancy services income	56	–	–
	67	–	–
Other income:			
Interest income	4	2	5
Total revenue	71	2	5

## 3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment information is presented by way of Mingrunfeng's primary segment reporting basis, by business segment. No further geographical segment information is presented as 100% of Mingrunfeng's revenue is derived from customers and operations are located in the PRC.

For the year ended 31 December 2004, Mingrunfeng was solely engaged in the trading of construction materials and electrical appliance and the provision of related consultancy services. Accordingly, no analysis of Mingrunfeng's business segments is presented for the said periods.

For the year ended 31 December 2005, Mingrunfeng was dormant and, accordingly, no analysis of Mingrunfeng's business segments is presented for the year.

For the year ended 31 December 2006, Mingrunfeng was solely engaged in business in exploring and mining of coal. Accordingly, no analysis of Mingrunfeng's business segments is presented for the year.

**4. LOSS BEFORE TAXATION**

The loss before taxation is stated after charging/(credit) the following:

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Auditors' remuneration	–	–	–
Depreciation	5	9	7
Staff costs (excluding directors' remuneration (note 7))	81	137	144
Bank interest income	(4)	(2)	(5)
	<u>          </u>	<u>          </u>	<u>          </u>

**5. FINANCE COSTS**

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Interest on other loans	–	–	809
	<u>          </u>	<u>          </u>	<u>          </u>

**6. STAFF RETIREMENT BENEFITS**

The employees of Mingrunfeng is a member of a state-sponsored retirement plan operated by the local government in the PRC and it makes mandatory contributions to the state-sponsored retirement plan to fund the employee retirement benefits. The retirement contributions paid by Mingrunfeng is based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and is charged to the combined income statement as incurred. Mingrunfeng discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

## 7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (i) The directors of Mingrunfeng were members of the senior management of Mingrunfeng throughout the Relevant Periods. Assuming these existing directors had already been appointed directors at the beginning of the Relevant Periods, details of directors' emoluments paid by Mingrunfeng can be summarised as follows:

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Fees	–	–	–
Other emoluments			
– salaries	23	30	75
	<u>23</u>	<u>30</u>	<u>75</u>
	<u><u>23</u></u>	<u><u>30</u></u>	<u><u>75</u></u>

The director's emoluments were paid to Mr. Yang Runzhi during the Relevant Periods.

The emoluments of the above director fall within the band from Nil to HK\$1,000,000 during the Relevant Periods.

During the Relevant Periods, no director of Mingrunfeng waived any emoluments and no emoluments were paid or payable by Mingrunfeng as an inducement to join or upon joining Mingrunfeng, or as compensation for loss of office.

- (ii) Details of the emoluments paid to the five highest paid individuals (including 1 director and 4 other employees) are as follows:

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Salaries and allowances	71	101	183
Contributions to			
retirement scheme	–	–	–
	<u>71</u>	<u>101</u>	<u>183</u>
	<u><u>71</u></u>	<u><u>101</u></u>	<u><u>183</u></u>

During the Relevant Periods, no emolument was paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining Mingrunfeng or as compensation of loss of office.

The emoluments of all the five highest paid individuals (including 1 director and 4 other employees) for the Relevant Periods are below HK\$1,000,000.

## 8. TAXATION

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
PRC corporate income tax	—	—	—

- (i) No provision for PRC corporate income tax has been made as Mingrunfeng had no assessable profits arising from the PRC during the Relevant Periods.
- (ii) As at 31 December 2004, 2005 and 2006, Mingrunfeng had unrecognised deferred tax assets, in relation to tax losses, of approximately HK\$46,000, HK\$112,000 and HK\$838,000, respectively.

The reconciliation between Mingrunfeng's loss for the year and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Year ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Loss before taxation for the year	(103)	(201)	(2,199)
Tax calculated at the applicable tax rate of 33%	(34)	(66)	(726)
Tax benefits not recognised	34	66	726
Tax charge	—	—	—
Effective tax rate	—	—	—



## 9. PROPERTY, PLANT AND EQUIPMENT

	31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
<b>Furniture and equipment</b>			
At beginning of year			
Cost	–	39	39
Accumulated depreciation	–	(5)	(14)
Net carrying amount	<u>–</u>	<u>34</u>	<u>25</u>
At beginning of year, net of accumulated depreciation	–	34	25
Additions during the year	39	–	11
Depreciation provided during the year	(5)	(9)	(7)
At balance sheet date, net of accumulated depreciation	<u>34</u>	<u>25</u>	<u>29</u>
At balance sheet date			
Cost	39	39	50
Accumulated depreciation	(5)	(14)	21
Net carrying amount	<u>34</u>	<u>25</u>	<u>29</u>

## 10. INTANGIBLE ASSETS

Intangible assets represented cost incurred in relation to the exploration sub-licensing right and the exploration work of the Coal Mine. Details of the movement in intangible assets during the Relevant Periods are as follows:

	31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
At beginning of year	–	–	–
Additions during the year, at cost	–	–	23,885
Less: Impairment loss	–	–	–
At balance sheet date, net of impairment loss, at cost	<u>–</u>	<u>–</u>	<u>23,885</u>

Pursuant to an agreement dated 7 June 2006, Mingrunfeng has paid RMB9,380,000 to an independent third party as the consideration to secure the entering of the Co-Operation Agreement with Guoxin. The Co-Operation Agreement enables Mingrunfeng to explore and assess the reserves of the Coal Mine up to June 2007.

The exploration works are executed by an independent exploration company employed by Mingrunfeng. The costs of the exploration works incurred up to 31 December 2006 amounted to approximately RMB14,505,000.

The exploration works of Coal Mine has reached the general exploration stage as at the balance sheet date. Pursuant to the Co-Operation Agreement, Guoxin will transfer its entire exploration rights of the Coal Mine to Mingrunfeng at a consideration calculated at 20% of the value of the exploration rights of the Coal Mine (note 19(d)).

## 11. DUE FROM/(TO) A DIRECTOR

Name of director	31 December			Maximum amount due from the director During the year ended 31 December		
	2004	2005	2006	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited			
Yang Runzhi	(162)	(191)	788	-	-	788
	<u>(162)</u>	<u>(191)</u>	<u>788</u>			

The amount due from/(to) a director is unsecured, interest-free and has no fixed terms of repayment.

## 12. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
	Audited	Audited	Audited
Current – not due	-	-	-
0 to 30 days	-	-	5,585
	<u>-</u>	<u>-</u>	<u>5,585</u>

## 13. DEPOSIT RECEIVED

The balance represented the deposit received from Bright Asset pursuant to the Capital Contribution Agreement whereby subject to, inter alia, the approval by the relevant PRC authorities and fulfilling the requirements under the listing rules of The Stock Exchange of Hong Kong Limited, Bright Asset will contribute a total amount of RMB20,000,000 (financed by the deposit of RMB15,000,000 and a further cash contribution of RMB5,000,000) to the capital of Mingrunfeng in return for its enlarged 51% equity interest. Upon completion of the capital contribution, RMB520,000 will be used to increase the registered capital and the remaining RMB19,480,000 will be credited to the capital reserve account of Mingrunfeng.

**14. OTHER LOANS**

The other loans are granted by certain independent third parties to Mingrunfeng at the following terms:

<b>Draw down date of loan</b>	<b>Lender</b>	<b>Amount</b>	<b>Interest rate</b>	<b>Due date</b>	<b>Guarantors</b>
24 August 2006	A	RMB2,000,000	Interest free	31 December 2006	Mr. Yang and the director of Jumplex
17 November 2006	B	RMB1,000,000	1.6% per month	17 February 2007	Mr. Yang, Jumplex, First Choice and Wise House
2 December 2006	B	RMB1,000,000	1.5% per month	2 March 2007	Mr. Yang, Jumplex, First Choice and Wise House
22 December 2006	B	RMB500,000	1.5% per month	22 March 2007	Mr. Yang, Jumplex, First Choice and Wise House

Pursuant to respective supplemental agreements entered into between Mingrunfeng, the guarantors and Lender A and B dated 20 January 2007, the due dates for repayment of the above loans are extended to 30 June 2007, 17 May 2007, 2 June 2007 and 22 June 2007, respectively.

**15. LOAN FROM A DIRECTOR**

The amount is unsecured, bears interest at a monthly rate of 1.5% and is original due for repayment on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007. The loan is jointly guaranteed by Jumplex, First Choice and Wise House.

**16. REGISTERED AND PAID-UP CAPITAL**

*HK\$'000*  
Audited

Registered and fully paid-up as at 31 December 2004, 2005  
and 2006

500

The registered capital of Mingrunfeng was RMB500,000 upon registration, which was paid up in cash on registration.

**17. RELATED PARTY TRANSACTIONS**

Mingrunfeng had the following transactions with related parties during the year:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Audited	Audited
Loan interest paid/payable to a director of Mingrunfeng, Mr. Yang Runzhi	-	-	467

**18. OPERATING LEASE ARRANGEMENTS****As lessee**

Mingrunfeng leases its office under operating lease arrangement for a term of 5 years.

At each balance sheet date, Mingrunfeng had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	<b>31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Audited	Audited
Within one year	3	3	2
In the second to fifth years, inclusive	8	5	–
	<u>11</u>	<u>8</u>	<u>2</u>

**19. SIGNIFICANT POST BALANCE SHEET EVENTS**

- (a) On 16 January 2007, Bright Asset entered into three acquisition agreements with the shareholders of Jumplex, First Choice and Wise House. Pursuant to these agreements, Bright Asset will acquire the entire issued share capital of Jumplex, First Choice and Wise House. Upon completion of these agreements, Mingrunfeng will become an indirect wholly owned subsidiary of Bright Asset.
- (b) Pursuant to a loan agreement entered by Mingrunfeng with Lender B on 16 November 2006, Lender B will provide a loan of RMB2,000,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. Mingrunfeng has drawn down RMB500,000 on 22 December 2006 (note 14), and additional amounts of RMB500,000 and RMB1,000,000 subsequent to the balance sheet date on 8 January 2007 and 27 March 2007, respectively. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.
- (c) On 20 January 2007, Mingrunfeng entered into a loan facility agreement with Lender A, Jumplex, First Choice, Wise House and Mr. Yang. Pursuant to this loan agreement, Lender A will provide a loan of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. The loan is unsecured and is jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the date of this report, loan amount of RMB1,500,00 had been drawn down by Mingrunfeng which is due for repayment on or before 18 July 2007.
- (d) On 10 March 2007, Mingrunfeng entered into a supplemental agreement with Guoxin in relation to the transfer of the exploration licence (the "Exploration License") of the Coal Mine. Pursuant to this supplemental agreement, Guoxin will transfer the Exploration License to Mingrunfeng upon the payment by Mingrunfeng (i) RMB5 million to Guoxin as prepayment of part of the 20% of the value of the exploration rights of the Coal Mine, being the consideration for the transfer of the Exploration License and (ii) RMB2,278,000 to the Department of Land and Resources of the Inner Mongolia Autonomous Region as the premium for the transfer of the Exploration License. The supplemental agreement also specified that any remaining cash consideration for the transfer of the Exploration License shall be paid to Guoxin within three months after the value of the exploration rights of the Coal Mine is being appraised by an independent valuation institution. Mingrunfeng has paid RMB5 million and RMB2,278,000 to Guoxin and the Department of Land and Resources of the Inner Mongolia Autonomous Region on 26 March 2007, respectively. The transfer of the Exploration License to Mingrunfeng is under process as at the date of this report.

- (e) On 19 March 2007, Mingrunfeng further entered into two loan facility agreements with Lender A and Lender C, an independent third party, with Jumplex, First Choice, Wise House and Mr. Yang as guarantors. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, Mingrunfeng did not have other significant subsequent events took place subsequent to 31 December 2006.

## 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Mingrunfeng is exposed to various kinds of risks in its operation and financial instruments. Mingrunfeng's risk management objectives and polices mainly focused on minimising the potential adverse effects of these risks on Mingrunfeng by closely monitoring the individual exposure as follows:

### (a) Credit risk

Mingrunfeng's credit risk is primarily attributable to bank balances and amount due from a director. All the bank balances were made with financial institutions with high-credit quality.

### (b) Liquidity risk

The Company manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Pursuant to the Loan Facility Agreement, Bright Asset had conditionally agreed to provide a revolving loan of up to RMB40,000,000 to finance the operations of Mingrunfeng in meeting of its emergency liquidity requirement.

### (c) Cash flows and fair value interest rate risk

Mingrunfeng's exposure to the risk of changes in market interest rates relates primarily to its other loans and the revolving loan facility provided by Bright Asset with a floating interest rate.

### (d) Foreign exchange risk

Mingrunfeng does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Renminbi ("RMB").

## 21. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared for Mingrunfeng in respect of any period subsequent to 31 December 2006.

Yours faithfully,

**Cachet Certified Public Accountants Limited**  
*Certified Public Accountants*  
Hong Kong

**Chan Chi Yuen**  
Practising Certificate Number P02671

*The following is the text of a report, prepared for the purpose of incorporation in this circular, from Cachet Certified Public Accountants Limited in respect of the pro forma financial information of the Enlarged Group as set out in this appendix:*



## Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

30 March 2007

The Directors  
Kiu Hung International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Kiu Hung International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and Jumplex Investment Limited (“Jumplex”), First Choice Resources Limited (“First Choice”), Wise House Limited (“Wise House”) and Beijing Mingrunfeng Trading Co., Limited (“Mingrunfeng”) (together with the Group hereinafter referred to as the “Enlarged Group”), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how (a) the proposed contribution of RMB20 million by Bright Asset Investments Limited (“Bright Asset”), a wholly owned subsidiary of the Company, in return for an enlarged 51% equity interest in the capital of Mingrunfeng pursuant to a capital contribution agreement dated 2 September 2006 (the “Capital Contribution”); (b) the proposed acquisition of the entire issued share capital of Jumplex, First Choice and Wise House by Bright Asset at a consideration of HK\$14.6 million, HK\$19.5 million and HK\$46.3 million, respectively, pursuant to three sales and purchase agreements dated 16 January 2007 (the “New Acquisition”) and (c) the proposed conditional acquisition of an additional 16% equity interest in the enlarged paid up capital of Mingrunfeng by Bright Asset at a consideration of HK\$39.0 million from Mr. Yang Runzhi (the “2nd Acquisition”), might have affected the financial information presented, for inclusion as Appendix III to the circular of Company dated 30 March 2007 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out in Section 1 of this Appendix below.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the Directors of Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2006 or at any future date; or
- the results of the Enlarged Group for the year ended 31 December 2005 or for any future periods.

**OPINION**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Cachet Certified Public Accountants Limited**  
*Certified Public Accountants*  
Hong Kong

**Chan Chi Yuen**  
*Practising Certificate Number P02671*

**1. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following Unaudited Pro forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the proposed Capital Contribution, the proposed New Acquisition and the proposed 2nd Acquisition.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on the audited income statement and cash flow statement of the Group for the year ended 31 December 2005 as extracted from the annual report of the Company and the audited income statements and cash flow statements of Jumplex, First Choice, Wise House and Mingrunfeng for the year ended 31 December 2006 as extracted from the accountants' report as set out in Appendix II to this circular as if the proposed Capital Contribution, the proposed New Acquisition and the proposed 2nd Acquisition have been completed at the beginning of their respective financial year ended 31 December 2005.

The unaudited pro forma balance sheet of the Enlarged Group is prepared based on the unaudited balance sheet of the Group as at 30 June 2006 as extracted from the interim report of the Company and the audited balance sheet of Jumplex, First Choice, Wise House and Mingrunfeng as at 31 December 2006 as extracted from the accountants' report as set out in Appendix II to this circular as if the proposed Capital Contribution, the proposed New Acquisition and the proposed 2nd Acquisition have been completed on 30 June 2006.

The Unaudited Pro forma Financial Information is prepared to provide information on the Enlarged Group as a result of the completion of the proposed Capital Contribution, the proposed New Acquisition and the proposed 2nd Acquisition. It is prepared for illustrative purpose only and it does not purport to represent what the results or financial position of the Enlarged Group as on the completion of the proposed Capital Contribution, the proposed New Acquisition and the proposed 2nd Acquisition.



## 2. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP

	The Group 30 June 2006 HK\$'000 Unaudited	Jumplex 31 December 2006 HK\$'000 Audited	First Choice 31 December 2006 HK\$'000 Audited	Wise House 31 December 2006 HK\$'000 Audited	Mingrunfeng 31 December 2006 HK\$'000 Audited	Sub-total HK\$'000	Pro-forma adjustment HK\$'000	The Enlarged Group 30 June 2006 HK\$'000 Unaudited	
<b>Non-current assets</b>									
Goodwill	-	-	-	-	-	-	121,471 2,000	(g) (f)	123,471
Intangible assets	-	-	-	-	23,885	23,885			23,885
Land use rights	6,042	-	-	-	-	6,042			6,042
Property, plant and equipment	62,941	-	-	-	29	62,970			62,970
Investment properties	400	-	-	-	-	400			400
Investment in an associate/ Available for sale investment	-	61	82	194	-	337	20,000 14,600 19,500 46,300 39,000 (139,737)	(a) (b) (c) (d) (e) (g)	-
Deferred tax assets	1,987	-	-	-	-	1,987			1,987
	<u>71,370</u>	<u>61</u>	<u>82</u>	<u>194</u>	<u>23,914</u>	<u>95,621</u>			<u>218,755</u>
<b>Current assets</b>									
Inventories	11,629	-	-	-	-	11,629			11,629
Trade receivables and bill receivable	11,816	-	-	-	-	11,816			11,816
Repayment, deposit and other receivables	1,370	-	-	-	-	1,370			1,370
Loan to a third party	-	-	619	-	-	619	(619)	(g)	-
Amount due from a director	-	-	-	-	788	788			788
Amount due from shareholders	-	-	-	238	-	238			238
Amount due from related companies	5,703	-	-	-	-	5,703			5,703
Financial asset at fair value of other investment	286	-	-	-	-	286			286
Cash and cash equivalents	56,452	-	83	-	458	56,993	(15,000)	(a)	41,993
Tax recoverable	139	-	-	-	-	139			139
	<u>87,395</u>	<u>-</u>	<u>702</u>	<u>238</u>	<u>1,246</u>	<u>89,581</u>			<u>73,962</u>
<b>Current liabilities</b>									
Trade payables	14,515	-	-	-	5,585	20,100			20,100
Other payables, deposits received and accruals	6,700	62	86	204	11,115	8,167	2,000	(f)	10,167
Current portion of interest-bearing bank and other borrowings	35,504	-	-	-	-	35,504			35,504
Current portion of financial lease payable	89	-	-	-	-	89			89
Deposit received	-	-	-	-	15,000	15,000	(15,000)	(a)	-
Other loans	-	-	-	-	4,500	4,500			4,500
Loans from a director	-	-	-	-	1,000	1,000			1,000
Amount due to a shareholder	-	19	753	-	-	772	(772)	(g)	-
Tax payables	351	-	-	-	-	351			351
	<u>57,159</u>	<u>81</u>	<u>839</u>	<u>204</u>	<u>27,200</u>	<u>85,483</u>			<u>71,711</u>
<b>Net current assets/(liabilities)</b>	<u>30,236</u>	<u>(81)</u>	<u>(137)</u>	<u>34</u>	<u>(25,954)</u>	<u>4,098</u>			<u>2,251</u>
<b>Total assets less net assets/ (liabilities)</b>	<u>101,606</u>	<u>(20)</u>	<u>(55)</u>	<u>228</u>	<u>(2,040)</u>	<u>99,719</u>			<u>221,006</u>

	The Group	Jumplex	First Choice	Wise House	Mingrunfeng		Pro-forma		The Enlarged
	30 June	31 December	31 December	31 December	31 December		adjustment		Group
	2006	2006	2006	2006	2006	Sub-total			2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
	Unaudited	Audited	Audited	Audited	Audited				Unaudited
<b>Non-current liabilities</b>									
Interest-bearing bank and other borrowings	(1,995)	-	-	-	-	(1,995)			(1,995)
Financial lease payable	(7)	-	-	-	-	(7)			(7)
Deferred tax liabilities	(3,821)	-	-	-	-	(3,821)			(3,821)
	<u>(5,823)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,823)</u>			<u>(5,823)</u>
Net assets/(liabilities)	<u>95,783</u>	<u>(20)</u>	<u>(55)</u>	<u>228</u>	<u>(2,040)</u>	<u>93,896</u>			<u>215,183</u>
Shareholders' equity/ (Deficiency in assets)									
Share capital	44,277	-	-	281	500	45,058	520	(a)	51,517
							887	(b)	
							1,182	(c)	
							2,807	(d)	
							2,364	(e)	
							(1,301)	(g)	
Reserves	51,506	(20)	(55)	(53)	(2,540)	48,838	19,480	(a)	163,666
							13,713	(b)	
							18,318	(c)	
							43,493	(d)	
							36,636	(e)	
							(16,812)	(g)	
	<u>95,783</u>	<u>(20)</u>	<u>(55)</u>	<u>228</u>	<u>(2,040)</u>	<u>93,896</u>			<u>215,183</u>

## 3. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group	Jumplex	First Choice	Wise House	Mingrunfeng			The Enlarge
	Year ended	Year ended	Year ended	Year ended	Year ended		Pro-forma	Group
	31 December	31 December	31 December	31 December	31 December	Sub-total	adjustment <sup>#</sup>	Year ended
	2005	2006	2006	2006	2006	HK\$'000	HK\$'000	31 December
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	2005
	Audited	Audited	Audited	Audited	Audited			Unaudited
Turnover	67,528	-	-	-	-	67,528		67,528
Cost of sales	(44,705)	-	-	-	-	(44,705)		(44,705)
Gross profit	22,823	-	-	-	-	22,823		22,823
Other revenue	6,631	-	-	-	5	6,636		6,636
Selling and distribution expenses	(6,601)	-	-	-	-	(6,601)		(6,601)
General and administrative expenses	(17,709)	(20)	(22)	(38)	(1,395)	(19,184)		(19,184)
Other operating expenses	(771)	-	-	-	-	(771)		(771)
Share of loss of a jointly controlled entity	(869)	-	-	-	-	(869)		(869)
Share of loss of an associate	(335)	-	-	-	-	(335)		(335)
Impairment of goodwill	-	-	-	-	-	-		-
Finance expenses	(3,533)	-	-	-	(809)	(4,342)		(4,342)
Loss before taxation	(364)	(20)	(22)	(38)	(2,199)	(2,643)		(2,643)
Taxation credit	323	-	-	-	-	323		323
Loss for the year	<u>(41)</u>	<u>(20)</u>	<u>(22)</u>	<u>(38)</u>	<u>(2,199)</u>	<u>(2,320)</u>		<u>(2,320)</u>
Attributable to:								
Equity holders of the Company	<u>(41)</u>	<u>(20)</u>	<u>(22)</u>	<u>(38)</u>	<u>(2,199)</u>	<u>(2,320)</u>		<u>(2,320)</u>

# No pro formal adjustments were made on the pro formal combined income statement of the Enlarged Group

## 4. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group	Jumplex	First Choice	Wise House	Mingrunfeng		The Enlarged Group
	Year ended	Year ended	Year ended	Year ended	Year ended		Year ended
	31 December	31 December	31 December	31 December	31 December	Pro-forma	31 December
	2005	2006	2006	2006	2006	Sub-total	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HKD'000	HKD'000
	Audited	Audited	Audited	Audited	Audited	Unaudited	
<b>Cash flows from operating activities</b>							
Loss from operations	(364)	(20)	(22)	(38)	(2,199)	(2,643)	(2,643)
Adjustments for:							
Amortisation of prepaid land							
lease payments	152	-	-	-	-	152	152
Interest income	(344)	-	-	-	(5)	(349)	(349)
Interest expenses	2,309	-	-	-	809	3,118	3,118
Provision for inventory	3,131	-	-	-	-	3,131	3,131
Bad debts written-off	162	-	-	-	-	162	162
Depreciation of property,							
plant and equipment	6,199	-	-	-	7	6,206	6,206
Revaluation surplus on leasehold							
land and building	(147)	-	-	-	-	(147)	(147)
Written-off of property,							
plant and equipment	29	-	-	-	-	29	29
Impairment of goodwill	261	-	-	-	-	261	261
Share of loss of an associate	335	-	-	-	-	335	335
Gains on disposal of subsidiaries	869	-	-	-	-	869	869
Share of loss of a jointly							
controlled entity	(2,740)	-	-	-	-	(2,740)	(2,740)
Operating cash inflow/(outflow)							
before movement in working capital	9,852	(20)	(22)	(38)	(1,388)	8,384	8,384
Increase in inventories	(3,681)	-	-	-	-	(3,681)	(3,681)
Increase in trade and bill receivable	(10,724)	-	-	-	-	(10,724)	(10,724)
Decrease in deposits, prepayment and							
other receivables	486	-	-	-	15	501	501
Increase in amount due from							
an associate	(1,362)	-	-	-	-	(1,362)	(1,362)
Increase in amount due from a director	-	-	-	-	(788)	(788)	(788)
Decrease in trust receipt loan	(1,193)	-	-	-	-	(1,193)	(1,193)
Increase in trade and bill payables	3,679	-	-	-	-	3,679	3,679
Increase in other payables							
and accruals	166	1	4	1	305	477	477
Decrease in amount due to a director	-	-	-	-	(191)	(191)	(191)

## APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP

	The Group Year ended 31 December 2005 HK\$'000 Audited	Jumplex* Year ended 31 December 2006 HK\$'000 Audited	First Choice Year ended 31 December 2006 HK\$'000 Audited	Wise House Year ended 31 December 2006 HK\$'000 Audited	Mingrunfeng Year ended 31 December 2006 HK\$'000 Audited	Sub-total HKD'000 Unaudited	Pro-forma adjustment HKD'000	The Enlarged Group Year ended 31 December 2005 HKD'000
Cash used in operations	(2,777)	(19)	(18)	(37)	(2,047)	(4,898)		(4,898)
Interest received	-	-	-	-	5	5		5
Interest expenses	(2,279)	-	-	-	-	(2,279)		(2,279)
Interest expenses in finance lease payments	(30)	-	-	-	-	(30)		(30)
Tax paid	(96)	-	-	-	-	(96)		(96)
Tax refund	37	-	-	-	-	37		37
<b>Net cash used in operating activities</b>	<b>(5,145)</b>	<b>(19)</b>	<b>(18)</b>	<b>(37)</b>	<b>(2,042)</b>	<b>(7,261)</b>		<b>(7,261)</b>
<b>Cash flow from investing activities</b>								
Interest received	344	-	-	-	-	344		344
Acquisition of intangible assets	-	-	-	-	(18,300)	(18,300)		(18,300)
Purchases of property, plant and equipment	(10,911)	-	-	-	(11)	(10,922)		(10,922)
Decrease in financial assets at fair value through profit and loss	20	-	-	-	-	20		20
Acquisition cost of subsidiary	529	-	-	-	-	529		529
Proceeds from disposal of subsidiary	2,041	-	-	-	-	2,041		2,041
Decrease in amount due from a related company	2,900	-	-	-	-	2,900		2,900
Decrease in amount due from shareholders	-	-	-	35	-	35		35
<b>Net cash generated from/ (used in) investing activities</b>	<b>(5,077)</b>	<b>-</b>	<b>-</b>	<b>35</b>	<b>(18,311)</b>	<b>(23,353)</b>		<b>(23,353)</b>
<b>Cash flow from financing activities</b>								
New bank loan	28,368	-	-	-	-	28,368		28,368
Repayment of bank loan	(26,699)	-	-	-	-	(26,699)		(26,699)
New other loans obtained	-	-	-	-	17,500	17,500		17,500
Repayment of other loans	-	-	-	-	(13,000)	(13,000)		(13,000)
Repayment of capital element of finance lease rental payment	(640)	-	-	-	-	(640)		(640)
Loan from a director	-	-	-	-	1,000	1,000		1,000
Increase in amount due to shareholders	-	19	101	-	-	120		120
Deposit received	-	-	-	-	15,000	15,000	(15,000)	(a) -
<b>Net cash generated from financing activities</b>	<b>1,029</b>	<b>19</b>	<b>101</b>	<b>-</b>	<b>20,500</b>	<b>21,649</b>		<b>6,649</b>
Net increase/(decrease) in cash and cash equivalents	(9,193)	-	83	(2)	147	(8,965)		(23,965)
Cash and cash equivalents at beginning of the year	56,616	-	-	2	311	56,929		56,929
Change in exchange rates	611	-	-	-	-	611		611
Cash and cash equivalents at end of the year	<b>48,034</b>	<b>-</b>	<b>83</b>	<b>-</b>	<b>458</b>	<b>48,575</b>		<b>33,575</b>
Analysis of the balances of cash and cash equivalents								
<b>Bank balances and cash</b>	<b>48,034</b>	<b>-</b>	<b>83</b>	<b>-</b>	<b>458</b>	<b>48,575</b>	<b>(15,000)</b>	<b>(a) 33,575</b>

**5. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

- (a) The adjustment reflects the RMB20 million (equivalent to HK\$20 million) contributed by Bright Asset to Mingrunfeng pursuant to the Capital Contribution Agreement in return for an enlarged 51% equity interest in the paid up capital of Mingrunfeng. The deposit of RMB15 million received by Mingrunfeng in June 2006 was deemed to have been paid by the Group at 31 December 2005.
- (b) The adjustment reflects the consideration of approximately HK\$14.6 million for the acquisition of the entire issued share capital of Jumplex by Bright Asset pursuant to the Jumplex Acquisition Agreement which is to be satisfied by the issue and allotment of 44,350,175 ordinary shares of HK\$0.02 each of the Company (the "Consideration Shares) at an issue price of HK\$0.33 per Consideration Share.
- (c) The adjustment reflects the consideration of approximately HK\$19.5 million for the acquisition of the entire issued share capital of First Choice by Bright Asset pursuant to the First Choice Acquisition Agreement which is to be satisfied by the issue and allotment of 59,103,859 Consideration Shares at an issue price of HK\$0.33 per Consideration Share.
- (d) The adjustment reflects the consideration of approximately HK\$46.3 million for the acquisition of the entire issued share capital of Wise House by Bright Asset pursuant to the Wise House Acquisition Agreement which is to be satisfied by the issue and allotment of 140,338,246 Consideration Shares at an issue price of HK\$0.33 per Consideration Share.
- (e) The adjustment reflects the consideration of approximately HK\$39.0 million for the acquisition of a 16% equity interest in the enlarged share capital of Mingrunfeng upon completion of the Capital Contribution Agreement from Mr. Yang Ruzhi pursuant to the 2nd Acquisition Agreement which is to be satisfied by the issue and allotment of 118,207,720 Consideration Shares at an issue price of HK\$0.33 per Consideration Share.
- (f) The adjustment reflects the accrual of the professional services fee of HK\$2,000,000 for the proposed acquisitions.

- (g) The adjustment reflects the elimination of the Group's investment in Jumplex, First Choice, Wise House and Mingrunfeng and the excess of the aggregate purchase considerations over the net assets acquired from Jumplex, First Choice, Wise House and Mingrunfeng, after adjusting for the shareholder's loan in Jumplex and First Choice acquired by Bright Asset pursuant to the Jumplex Acquisition Agreement and the First Choice Acquisition Agreement, respectively.

The reconciliation of adjustments on share capital and reserves is as follows:

	Share Capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>
Jumplex	–	(20)
First Choice	–	(55)
Wise House	281	(53)
Wingrunfeng	500	(2,540)
	<u>781</u>	<u>(2,668)</u>
Balance as at 30 September 2006		
Capital contribution by Bright Asset to Wingrunfeng as if it had been completed ( <i>note (a)</i> )	<u>520</u>	<u>19,480</u>
	<u><u>1,301</u></u>	<u><u>16,812</u></u>

- (h) The reconciliation of the goodwill arising from the acquisition is as follows:

	<i>HK\$'000</i>
Total purchase consideration ( <i>notes (b) to (e)</i> )	119,400
Add/(Less): Net (assets)/liabilities acquired in:	
Jumplex	62
First Choice	3
Wise House	(34)
Mingrunfeng	2,040
	<u>121,471</u>
Add: Professional fee directly related to the Proposed Acquisitions ( <i>note f</i> )	<u>2,000</u>
	<u><u>123,471</u></u>

*The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Castores Magi (Hong Kong) Limited, an independent valuer, in connection with its valuation as at 31st January 2007 of the properties held by the Enlarged Group.*

嘉漫(香港)有限公司  
CASTORES MAGI (HONG KONG) LIMITED  
REGISTERED PROFESSIONAL SURVEYORS  
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES  
  
MAGI

Unit B, 23rd Floor  
China Insurance Group Building  
141 Des Voeux Road Central  
Hong Kong

30th March, 2007

The Directors  
Kiu Hung International Holdings Limited  
14th Floor  
Yale Industrial Centre  
61-63 Au Pui Wan Street  
Fo Tan, Shatin  
New Territories  
Hong Kong

Dear Sirs,

In accordance with your instruction to value the properties in which Kiu Hung International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the relevant properties as at 31st January, 2007 (date of valuation).

Our valuations of the properties in Groups I, II, IV and Property 3 in Group III are on the basis of Market Value which we would define as “The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.” Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset for any associated taxes.

Our valuations of the property interests in Groups I, II, IV and Property 3 in Group III have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the properties.

The property interests in Groups I, II, IV and Property 3 in Group III have been valued on a market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.



In valuing the properties in Groups I and II in which the Government Leases expire before 30th June, 1997, we have taken into account the provisions of Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China (the "PRC") on the question of Hong Kong and the New Territories Leases (Extension) Ordinance (Chapter 150 of the Laws of Hong Kong) stipulating that such leases may be extended without premium until 30th June, 2047, and that an annual rent at three per cent. of the rateable value of the property will be charged from the date of extension.

In accordance with International Valuation Guidance Note No. 8 published by The International Valuation Standards Committee, the buildings and structures of Properties 1 and 2 in Group III belong to the category of specialized properties, which are rarely if ever sold on the open market, except by way of sale of the business or entity of which they are a part, due to their uniqueness, which arises from the specialized nature and design of the buildings, their configuration, size, location or otherwise. Consequently, reliable sale comparables cannot generally be identified for specialized properties.

Our valuations of Properties 1 and 2 in Group III are on the basis of Depreciated Replacement Cost which is used for the valuation of specialized properties. Depreciated Replacement Cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is a method used in financial reporting to arrive at a surrogate for the market value of specialized and limited market properties, for which market evidence is unavailable. Depreciated Replacement Cost is based on an estimate of the current gross replacement (reproduction) costs of the buildings and structures, less allowance for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the capital value of Properties 1 and 2 in Group III, we have made the summation of the market value of the land use rights and the depreciated replacement cost of the buildings and structures as at the date of valuation.

In valuing the property interests, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In valuing the properties, we have complied with all the requirements contained in Chapter 5 and the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The current status of the properties in Groups III and IV regarding major approvals, consents and licences required in the PRC is as follows:

<b>Document/Approval</b>	<b>Property – Group –</b>	<b>1 III</b>	<b>2 III</b>	<b>3 III</b>	<b>1 IV</b>
State-owned Land Use Rights Certificate		Yes	Yes	N.A.	N.A.
Building Ownership Certificate/Realty Title Certificate		Yes	Yes	No	Yes

N.A. – Not Applicable

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of the properties, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties and have caused searches to be made at the Land Registry regarding the properties in Hong Kong. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties in Groups III and IV or any material encumbrances that might be attached to the properties. We are not in a position to advise on the Group's title to the properties. However, we have made reference to the opinion dated 28th March, 2007 given by the Company's legal advisers on PRC laws, Trend Associates (福建創元律師事務所), in respect of the Group's title to the properties in Groups III and IV.

The scope of valuation has been determined with reference to the property list provided by the Group. All properties on the list have been included in this valuation certificate.

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The adopted exchange rate for the valuation of properties in Groups III and IV is the prevailing rate as at the date of valuation, being HK\$1 to RMB1 and no significant fluctuation in exchange rate has been found between that date and the date of this letter.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**Castores Magi (Hong Kong) Limited**  
**Ernest Cheung Wah Fu**  
*Member of China Institute of Real Estate Appraisers*  
*China Registered Real Estate Appraiser*  
*B.Sc. MRICS MHKIS RPS MCI Arb*  
*Director*

*Note:* Ernest Cheung Wah Fu is a Registered Professional Surveyor who has over 14 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

## SUMMARY OF VALUES

## Group I – Property interest owned and occupied by the Group in Hong Kong

<b>Property</b>	<b>Capital Value in existing state as at 31st January, 2007 HK\$</b>
1. Workshop 23 on 14th Floor, Car Parking Space P11 and Lorry Parking Space L15 on 1st Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong.	1,190,000
2. Workshops 1-22 on 14th Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong.	9,860,000
	<hr/>
<b>Sub-Total:</b>	<b>11,050,000</b> <hr/>

**Group II – Property interest owned by the Group for investment in Hong Kong**

<b>Property</b>	<b>Capital Value in existing state as at 31st January, 2007 HK\$</b>
1. Car Parking Space No. L12 on 1st Floor, Wing Kin Industrial Building, Nos. 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong.	400,000
<b>Sub-Total:</b>	400,000

**Group III – Property interests held and occupied by the Group in Fujian Province, the PRC**

1. Kiu Hung Centre, No. 1 Gong Ye Road, Chengxiang District, Putian City, Fujian Province, The PRC.	27,750,000
2. Kiu Hung Industrial Centre, Hushi Zhen, North Shore of Mei Zhou Bay, Putian City, Fujian Province, The PRC.	65,370,000

<b>Property</b>	<b>Capital Value in existing state as at 31st January, 2007 HK\$</b>
3. Level 2, No. 1 Shopping Mall, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	6,430,000
<b>Sub-Total:</b>	<u>99,550,000</u>
<b>Group IV – Property interest held by the Group for investment in Fujian Province, the PRC</b>	
1. Whole of Level 17, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	2,420,000
<b>Sub-Total:</b>	<u>2,420,000</u>
<b>Grand Total:</b>	<u><u>113,420,000</u></u>

## VALUATION CERTIFICATE

## Group I – Property interest owned and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2007 HK\$
1. Workshop 23 on 14th Floor, Car Parking Space P11 and Lorry Parking Space L15 on 1st Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong.	The property comprises a workshop unit on 14th Floor, a car parking space and a lorry parking space on 1st Floor of a 16-storey industrial building. The building was completed in 1987.  The workshop unit of the property has a saleable area of about 633 sq.ft. (58.8 sq.m.).	The workshop unit of the property is currently occupied by the Group for storage and ancillary office purposes. The lorry and car parking spaces of the property are currently occupied by the Group for car parking purpose.	1,190,000
11/2,380th shares of and in Sha Tin Town Lot No. 174 (the "Lot")	The Lot is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1st July, 1898 (as extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance).  The current annual Government rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot.		

*Note:* The registered owner of the property is Kiu Hung Toys Company Limited, a wholly-owned subsidiary of the Company.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2007 HK\$
2. Workshops 1-22 on 14th Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong.  136/2,380 shares of and in Sha Tin Town Lot No. 174 (the "Lot")	<p>The property comprises 22 workshop units on 14th Floor of a 16-storey industrial building. The building was completed in 1987.</p> <p>The property has a total saleable area of about 13,025 sq.ft. (1,210.1 sq.m.).</p> <p>The Lot is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1st July, 1898 (as extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance).</p> <p>The current annual Government rent payable for the Lot is equal to 3% of the rateable value of the time being of the Lot.</p>	<p>The property is currently subject to a tenancy agreement for a term of 3 years commencing from 1st January, 2007 to 31st December, 2009 at a monthly rent of HK\$60,000 inclusive of rates but exclusive of management fees.</p>	9,860,000



*Notes:*

1. The registered owner of the property is Newgary Development Limited, a wholly-owned subsidiary of the Company.
2. The property is subject to a legal charge dated 15th July, 1987 vide Memorial No. ST384460 in favour of Sin Hua Bank Limited (formerly known as Sin Hua Trust, Savings and Commercial Bank Limited).
3. The property is subject to a third legal charge dated 21st April, 1993 vide Memorial No. ST694197 in favour of Sin Hua Bank Limited (formerly known as Sin Hua Trust, Savings & Commercial Bank Limited).
4. The tenancy agreement of the property is an intra-group leasing arrangement. According to the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, “any property occupied by a company under an inter-company leasing arrangement within a group should be valued as owner-occupied property”. Therefore, we have valued the property on the basis of owner-occupation.

## Group II – Property interest owned by the Group for investment in Hong Kong

Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 31st January, 2007 HK\$
1. Car Parking Space No. L12 on 1st Floor, Wing Kin Industrial Building, Nos. 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong.  1/1,110th share of and in Kwai Chung Town Lot No. 273 (the "Lot")	The property comprises a car parking space on 1st Floor of a 25-storey industrial building. The building was completed in 1981.  The Lot is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1st July, 1898 (as extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance).	The property was leased for a term of 1 year commencing from 1st January, 2007 to 31st December, 2007 at a monthly rent of HK\$1,900 inclusive of rates and management fees.	400,000
	The current annual Government rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot.		

*Note:* The registered owner of the property is Kiu Hung Toys Company Limited, a wholly-owned subsidiary of the Company.

## Group III – Property interests held and occupied by the Group in Fujian Province, the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2007 HK\$
1. Kiu Hung Centre, No. 1 Gong Ye Road, Chengxiang District, Putian City, Fujian Province, The PRC.	<p>The property comprises 2 parcels of land and 28 buildings and structures erected thereon.</p> <p>The property has a total site area of 27,123.98 sq.m.</p> <p>The buildings were 1 to 5-storeys in height and were completed between 1988 to 1996.</p> <p>The property has a total gross floor area of approximately 26,085 sq.m.</p> <p>The property is subject to a land use rights for a term up to 31st July, 2050.</p>	The property is currently occupied by the Group for production, storage, research and development and ancillary office purposes.	27,750,000

*Notes:*

1. Pursuant to two State-owned Land Use Rights Certificates – Pu Guo Yong (2000) Zi Nos. C23348 and C23349 (國有土地使用証 – 莆國用(2000)字第C23348號及C23349號) both dated 2nd August, 2000 issued by the People's Government of Putian City (莆田市人民政府), the land use rights holder of the property, having a site area of 27,123.98 sq.m., is Kiu Hung Light Industrial Company Limited, Putian City, Fujian (“Kiu Hung Light Industrial”) (福建莆田市僑雄輕工有限公司) – an indirect wholly-owned subsidiary of the Company. The land use rights are granted for the purpose of erecting workshops and warehouses.
2. The property is subject to 2 Building Ownership Certificates – Pu Fang Zi Nos. 080628-1 and 080628-2 (房屋所有權証 – 莆房字第080628-1號及080628-2號) both dated 8th May, 1997 issued by the People's Government of Putian City (莆田市人民政府) which are granted under the name of Kiu Hung Light Industrial.
3. According to the legal opinion dated 28th March, 2007 provided by the Company's PRC legal advisers, Trend Associates (福建創元律師事務所) the followings, inter alia, were noted:

1. Kiu Hung Light Industrial is the unique legal holder of the land use rights and the unique owner of the buildings;
2. Kiu Hung Light Industrial can transfer, let and mortgage the property without any consent from a third party;
3. The buildings under Building Ownership Certificate - Pu Fang Zi No. 080628-1 (房屋所有權証 – 莆房字第080628-1號) were pledged. Prior to discharge of this pledge, the buildings covered by the pledge cannot be re-pledged or transferred. Apart from this, the property is not subject to any pledge, restrictions, court order or seizure.

4. The property is currently subject to the following pledge:

Pledge Agreement No.	Term	Loan Amount (RMB)	In favour of
2006年莆中押字第035號	From 22nd November, 2006 until full repayment of loan	4,900,000	中國銀行股份有限公司 莆田分行

5. The breakdown of capital value is as follows:

Land	HK\$17,570,000
Buildings & structures	HK\$10,180,000
Total	HK\$27,750,000

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2007 <i>HK\$</i>
2. Kiu Hung Industrial Centre, Hushi Zhen, North Shore of Mei Zhou Bay, Putian City, Fujian Province, The PRC.	<p>The property comprises a parcel of land and 17 buildings and structures erected thereon.</p> <p>The property has a site area of 84,537.5 sq.m.</p> <p>The buildings were 1 to 5-storeys in height and were completed between 1997 and 1999.</p> <p>The property has a total gross floor area of approximately 21,722.8 sq.m.</p> <p>The property is subject to a land use rights for a term up to 31st July, 2050.</p>	The property is currently occupied by the Group for production, storage, research and development and ancillary office purposes.	65,370,000

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate – Pu Guo Yong (2006) No. Y2006029 (國有土地使用証 – 莆國用(2006)第Y2006029號) dated 13th September, 2006 issued by the People’s Government of Putian City (莆田市人民政府), the land use rights holder of the property, having a total site area of 84,537.5 sq.m., is Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司), a wholly-owned subsidiary of the Company. The land use rights is granted for industrial purpose.
2. According to a Building Ownership Certificate – Pu Shi Fang Quan Zheng Xiu Yu Qu Zi No. 551210 (房屋所有權証 – 莆市房權証秀嶼區字第551210號) dated 2nd December, 2005 issued by Putian City Construction Bureau (莆田市建設局), the building ownership is vested in Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司), a wholly-owned subsidiary of the Company.
3. According to the legal opinion dated 28th March, 2007 provided by the Company’s PRC legal advisers, Trend Associates (福建創元律師事務所) the following, inter alia, were noted:
  1. Ka Hung Toys Co., Ltd. is the unique legal holder of the land use rights and the unique owner of the buildings;
  2. Ka Hung Toys Co., Ltd. can transfer, let and mortgage the property without any consent from a third party;
  3. The property is not subject to any pledge, restrictions, court order or seizure.

4. The breakdown of capital value is as follows:

Land	HK\$50,340,000
Buildings & structures	HK\$15,030,000
	<hr/>
Total	HK\$65,370,000

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st January, 2007 HK\$
3. Level 2, No. 1 Shopping Mall, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	<p>The property comprises a shop unit on Level 2 of a multi-storey commercial building which was completed in about 1995.</p> <p>The property has a gross floor area of 898.64 sq.m.</p>	The property is currently vacant.	6,430,000

*Notes:*

1. According to a Commodity Flat Sales and Purchase Contract (商品房買賣合同) No. 0111767 dated 25th October, 2001 entered into between Fortune Engineering Co., Ltd. Fujian (福建宏利工程有限公司) (Vendor) and Kiu Hung Investments Ltd. (僑雄投資有限公司) (Purchaser), the Purchaser acquired the property from the Vendor at a consideration of RMB8,986,800.
2. According to the legal opinion dated 28th March, 2007 provided by the Company's PRC legal advisers, Trend Associates (福建創元律師事務所) the followings, inter alia, were noted:
  1. Kiu Hung Investments Ltd. is the unique owner of the property;
  2. Kiu Hung Investments Ltd. had paid the purchase price of the property but had not apply for registration of the building ownership and had not obtained the Building Ownership Certificate (房屋所有權証). There is no legal obstacle for the issue of such building ownership certificate;
  3. Prior to registration of the building ownership and issue of the Building Ownership Certificate, the property cannot be transferred or pledged.
  4. The property is not subject to any pledge, restrictions, court order or seizure.
3. The Company had stated that application of the building ownership certificate for the property is under process and the certificate is expected to be obtained by the Group within 2007.

## Group IV – Property interest held by the Group for investment in Fujian Province, the PRC

Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 31st January, 2007 HK\$
1. Whole of Level 17, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	<p>The property comprises the whole Level 17 of a multi-storey commercial building which was completed in about 1995.</p> <p>The property has a gross floor area of approximately 704.64 sq.m.</p>	The property is currently subject to six tenancy agreements for various terms commencing from 1st May, 2006 to 5th December, 2007 at a total monthly rent of RMB14,615.22.	2,420,000

*Notes:*

1. According to a Commodity Flat Sales and Purchase Contract (商品房買賣合同) No. 0049147 entered into between Fortune Engineering Co., Ltd. Fujian (福建宏利工程有限公司) (Vendor) and Fujian Kcare Gifttoys Co., Ltd. (福建奇嘉禮品玩具有限公司) (“Fujian Kcare”) (Purchaser), the Purchaser acquired the property from the Vendor at a consideration of RMB3,199,066. Fujian Kcare is a wholly-owned subsidiary of the Company.
2. According to a Realty Title Certificate (房地產權證 – 榕房權証R字第0201912號) dated 24th January, 2002 issued by Fuzhou City Real Estate Management Bureau (福州市房地產管理局), the title of the property is vested in Fujian Kcare Gifttoys Co., Ltd. (福建奇嘉禮品玩具有限公司).
3. According to the legal opinion dated 28th March, 2007 provided by the Company’s PRC legal advisers, Trend Associates (福建創元律師事務所) the followings, inter alia, were noted:
  1. Fujian Kcare is the unique owner of the property;
  2. Fujian Kcare can transfer let and mortgage the property without any consent from a third party;
  3. The tenancy agreements of the property are legal and valid;
  4. The property is not subject to any pledge, restrictions, court order or seizure.



The following is the text of a report, prepared for the purpose of incorporation in this circular, from SRK Consulting in respect of the Coal Mine as set out in this appendix:



SRK Consulting  
Level 9  
300 Adelaide Street  
Brisbane Queensland 4000 Australia

Email: brisbane@srk.com.au  
www.srk.com.au

Tel: 61 7 3832 9999  
Fax: 61 7 3832 9330

30th March, 2007

The Directors  
Kiu Hung International Holdings Limited  
14th Floor  
Yale Industrial Centre  
61-63 Au Pui Wan Street  
Fo Tan, Shatin  
Hong Kong

## EXECUTIVE SUMMARY

Kiu Hung International Holdings Ltd (“Kiu Hung” or “the Company” or “the Group”) commissioned Steffen Robertson and Kirsten (Australasia) Pty Ltd trading as SRK Consulting (“SRK”) to undertake an independent review of the exploration asset, Guerbanhada Coal Project in Inner Mongolia, SRK was required to provide a Competent Person’s Report (CPR) in compliance with the listing rules of The Stock Exchange of Hong Kong Limited and which provides potential investors with a clear and un-biased view of the asset and its future production potential. This report summarises the major findings of the SRK review and states the Coal Resources for the project area in accordance with the 1999 Chinese Resource and Reserve Standard.

A preliminary drilling exploration program has been completed and this has clearly demonstrated that the Guerbanhada Coal Project has five groups of coal seams of which three groups have economic potential for extraction using open cut mining methods.

The exploration program comprised of 69 boreholes delineated a prospective area identified as Block #3 in the southern part of the Guerbanhada Coal Project. Fifty-one (51) of these boreholes targeted the five seam groups and of these, samples from 22 boreholes were analysed.

The three major coal seam groups range in thickness from 0.3 to 18.9 metres (m) and based on the analytical results, the coal is suitable for the Inner Mongolian domestic thermal market.

Steffen Robertson and Kirsten (Australasia) Pty Ltd  
Reg No ABN 56 074 271 720  
Trading as SRK Consulting

### Group Offices:

Africa  
Asia  
Australia  
North America  
South America  
United Kingdom

### Australian Offices:

Brisbane 61 7 3832 9999  
Maitland 61 2 4934 6685  
Perth 61 8 9288 2000

Based on the current drilling results, a Coal Resource has been estimated at a total of 106 Million tonnes (Mt) for categories 332 (30Mt) and 333 (76Mt).

Although these estimates cannot be reportable under the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) at this point in time, the 106Mt would be equivalent to an Inferred Coal Resource based on the principles of the JORC Code.

The conclusions of this report recommend that, given the excellent potential for the Guerbanhada Coal Project to become an economic open cut coal mine, further drilling should be conducted to provide sufficient detail for a final feasibility study for the project.

#### **DISCLAIMER**

*The opinions expressed in this report have been based on the information supplied to Steffen Robertson and Kirsten (Australasia) Pty Ltd trading as SRK Consulting (SRK) by Inner Mongolia Longwang Geological Exploration Co., Ltd. The opinions in this report are provided in response to a specific request from Kiu Hung International Holdings Limited (Kiu Hung) to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.*

	<i>Page</i>
<b>TABLE OF CONTENTS</b>	
Executive Summary .....	V-1
Disclaimer .....	V-2
<b>1 Introduction</b> .....	V-4
1.1 Statement of Qualification .....	V-4
1.2 Statement of Independence .....	V-5
<b>2 Property Description and Location</b> .....	V-5
2.1 The Mineral Asset .....	V-5
2.2 Exploration Tenement .....	V-5
<b>3 Accessibility, Climate, Local Resources, Infrastructure and Physiography</b> .....	V-7
<b>4 Geological Setting</b> .....	V-7
<b>5 Local Geology</b> .....	V-9
<b>6 Coal Geology</b> .....	V-10
<b>7 Exploration</b> .....	V-13
<b>8 Drilling</b> .....	V-14
<b>9 Sampling Method and Approach</b> .....	V-15
<b>10 Sample Preparation, Analyses and Security</b> .....	V-15
<b>11 Data Verification</b> .....	V-15
<b>12 Adjacent Properties</b> .....	V-16
<b>13 Coal Beneficiation Testing</b> .....	V-16
<b>14 Mineral Resource and Mineral Reserve Estimates</b> .....	V-16
<b>15 Other Relevant Data and Information</b> .....	V-17
<b>16 Interpretation and Conclusions</b> .....	V-17
<b>17 Recommendations</b> .....	V-18
<b>18 References</b> .....	V-18
<b>19 Date and Signature</b> .....	V-18
<b>Appendices</b> .....	V-19
Appendix 1: Resource and Reserve Statements .....	V-19
Appendix 2: Glossary of Terms .....	V-20

## LIST OF TABLES

Table 2-1: Tenement Coordinates for Guerbanhada Coal Project .....	V-6
Table 6-1: Seam Thickness Data for Guerbanhada Project Area .....	V-11
Table 6-2: Coal Quality for Major seam groups at Guerbanhada Coal Project .....	V-12
Table 14-1: Estimate of Coal Resources for Guerbanhada Coal Project .....	V-17

## LIST OF FIGURES

Figure 2-1: Location of the Guerbanhada Coal Project .....	V-6
Figure 4-1: Geological Map of Region around Guerbanhada Area .....	V-8
Figure 5-1: Block #3 shown in Shaded Zone .....	V-9
Figure 5-2: East-west Section through Guerbanhada Project Area .....	V-10
Figure 7-1: Borehole Location Plan for Guerbanhada Project Area .....	V-14

## 1 INTRODUCTION

SRK was commissioned by Kiu Hung to undertake an independent review of the Guerbanhada Coal Project in Inner Mongolia.

The purpose of the evaluation is to provide a CPR in a form acceptable under the listing rules of The Stock Exchange of Hong Kong Limited and which provides the shareholders of Kiu Hung with a clear and un-biased view of the asset and its future production potential. This report summarises the major findings of the SRK review.

### 1.1 Statement of Qualification

The author of this report, Patrick Hanna, is employed as Principal Consultant (Coal Geology) for SRK Consulting, Level 9, 300 Adelaide Street, Brisbane, Queensland, 4000 Australia. Mr Hanna has the following qualifications and relevant experience in the reporting of Coal Resources:

- Graduate of University of New South Wales with a Bachelor of Applied Science (B.Sc.) degree in Applied Geology (1976).
- Over 30 years experience as a coal geologist in coal deposits throughout Australia, China, Indonesia, India, Philippines, South Africa, and Ukraine.
- Technical experience includes activities in exploration, due diligence studies, feasibility studies and the evaluation of coal deposits.
- Professional qualifications include Fellow of the Australasian Institute of Mining and Metallurgy (FAusIMM), a Member of Minerals Industry Consultants Association (MMICA) and a Chartered Professional Geologist (CP).
- Competent Person in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004) (JORC Code).

## 1.2 Statement of Independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

None of SRK or any authors of this report has any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of Kiu Hung or any of its subsidiaries, or was proposed to be acquired, or disposed of by, or leased to any member of Kiu Hung or any of its subsidiaries within the two years immediately preceding the issue of this circular.

None of SRK or any authors of this report has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 2 PROPERTY DESCRIPTION AND LOCATION

### 2.1 The Mineral Asset

The coal tenement, known as Guerbanhada Coal project, is located in Xilinguolemeng, Inner Mongolia (Table 2-1). The project area is situated 180 kilometres (km) east of the major township of Dongwuzhumuqin Banner and only 30km northwest of Huolingole City.

The area has undergone preliminary exploration drilling and the results indicate a potential coal mine with some area amenable to open pit mining methods.

The coal is suited to the local thermal coal market.

### 2.2 Exploration Tenement

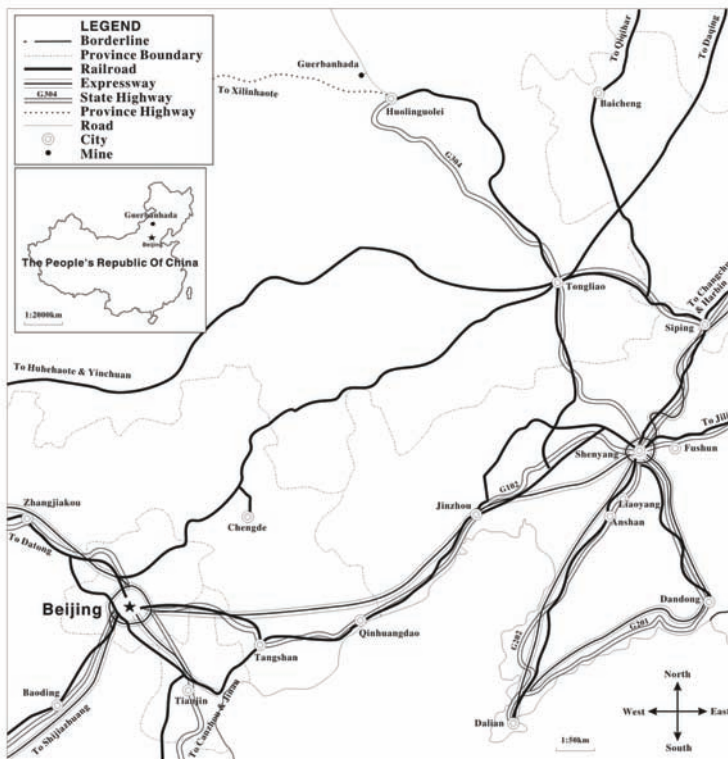
The Inner Mongolia National Land and Resources Department has issued the exploration license to Xilinguole Guoxin Mines Co. Ltd., on June 12, 2005. The license certificate number is 1525000510040, and is valid for the period commencing June 12, 2005 until October 31, 2007.

The tenement covers a total area of 227.8 square km (km<sup>2</sup>) and is delineated by the coordinates in Table 2-1.

Table 2-1: Tenement Coordinates for Guerbanhada Coal Project

No. of Flex Points	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	119°20'00"	45°36'00"	20682047.76	5054365.22
2	119°20'00"	45°44'00"	20681615.84	5069184.51
3	119°24'00"	45°44'00"	20686804.79	5069338.08
4	119°24'00"	45°45'30"	20686721.38	5072116.73
5	119°30'00"	45°45'30"	20694501.31	5072355.20
6	119°30'00"	45°50'00"	20694240.40	5080691.18
7	119°34'30"	45°30'00"	20700067.51	5080876.42
8	119°34'30"	45°42'00"	20700545.04	5066056.99
9	119°25'00"	45°42'00"	20688213.94	5065672.31
10	119°25'00"	45°36'00"	20688549.39	5054557.88

Figure 2-1: Location of the Guerbanhada Coal Project



### 3 ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

Situated on the west slope of the southern section of the Great Xingan Mountains, the Guerbanhada Coal project area is generally flat with some undulating hills ranging no more than 42m in elevation difference. Across the entire area the topography ranges from 896 to 1021m above sea level. The area is generally covered by sparse grassy vegetation in sufficient quantities for the grazing of sheep.

The region has long cold winters (-13°C to -21°C) and short summer periods (20°C to 25°C) with a relative high temperature difference each day. The lowest temperatures reach -37°C (January to February) while the highest temperatures reach 33°C (July).

Snow falls between September and May with a range of snow depths between 8 and 20 centimetres (cm). The ground is frozen for a period of 236 days between October and July, to a maximum depth of 2.4m.

The region is considered to have a dry continental climate as although the average annual rainfall is 354 millimetres (mm) (predominantly between June and August), the average annual evaporation capacity is around 1,600mm.

The region lies in a seismically inactive zone.

There is an unpaved road passing through the middle of the Guerbanhada Coal project area which is connected with the S101 highway to Huolinguole City. Huolinguole City has a railway line connecting it to Tongliao City, a major city which has a commercial airport with daily flights to Beijing.

Coal, the major industry for the region, is either trucked or railed to local power stations up to 600km away.

### 4 GEOLOGICAL SETTING

The Guerbanhada project area is located west of a major upfold geotectonic zone which gives rise to the Great Xingan Mountains. In the project area itself, there are a series of folds which form numerous anticlines and synclines.

The southern portion of the Guerbanhada area is primarily dominated by a synclinal feature, whereby the coal seams subcrop on the eastern and western flanks of the syncline within the lease boundaries.

Most of the surface in the Guerbanhada project area is covered by **Quaternary** (Q<sub>4</sub>) sediments, consisting of alluvial sands, silt and soil. The average thickness of Quaternary sediments is 16m, ranging from 10m to 20m.

The **Tertiary** sediments (Pliocene age,  $N_2$ ) unconformably underlie the Quaternary sediments and consist of weak mudstone and siltstones. The Tertiary sediments average 33m in thickness and range from 20m to 64m.

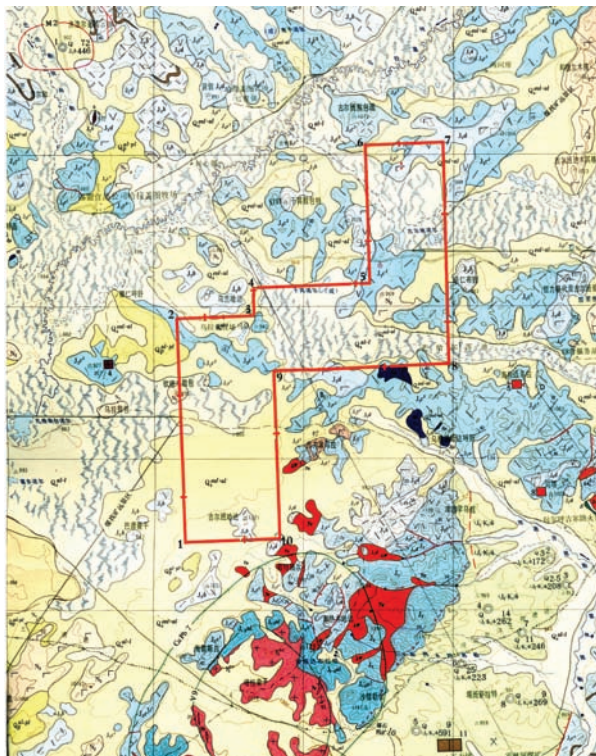
The coal bearing formation within the Guerbanhada project area is the Huolinhe Formation ( $K_{1h}$ ) of the Lower Cretaceous era. The thickness of these sediments average 185m, and reaches a maximum of 390m in places.

The Huolinhe Formation is divided into three groups:

- The lower glutenite section ( $K_{1h}^1$ ) with a maximum thickness of 150m and which consists of tuffaceous sandstones, glutenite and conglomerate.
- The middle coal-bearing section ( $K_{1h}^2$ ) with an average thickness of 80m (maximum 180m) consisting of four (#2, #3, #4, and #5) groups of seams and interbedded mudstones, siltstones and well cemented sandstones.
- The upper mudstone section ( $K_{1h}^3$ ) with an average thickness of 45m (maximum 180m) consisting primarily mudstones and one (#1) group of seams in the middle of the sequence.

The base of the coal-bearing sequence is an unconformable contact with the Daotenuoer Formation ( $J_{3d}$ ) of **Upper Jurassic** age. This formation consists of over 100m of basaltic andesite.

**Figure 4-1: Geological Map of Region around Guerbanhada Area**





5 LOCAL GEOLOGY

The Guerbanhada Project Area has been dissected into three blocks by two exposures of the basement Upper Jurassic volcanics.

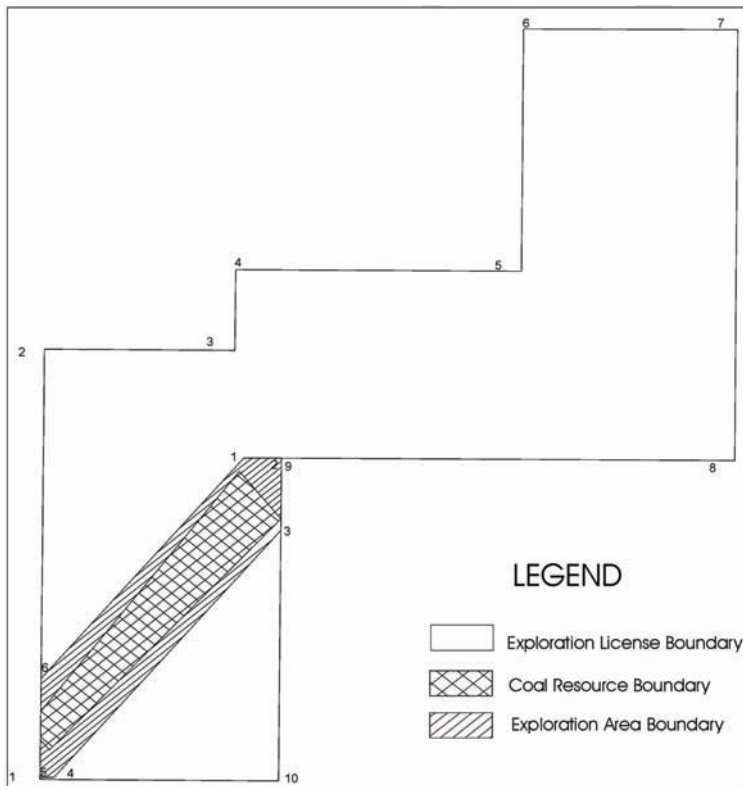
Initial exploration drilling in all three blocks across the project area indicated that the southernmost block, Block #3 (Figure 5-1), proved to have the most attractive potential for coal exploitation.

Block #3 contains a synclinal feature (Figure 5-2) dominating the geological structure. The syncline is narrow (maximum width of 1.25km) and extends 11km in the direction N25°E. The sediments dip at 9° on the eastern limb and at 20° on the western limb of the syncline.

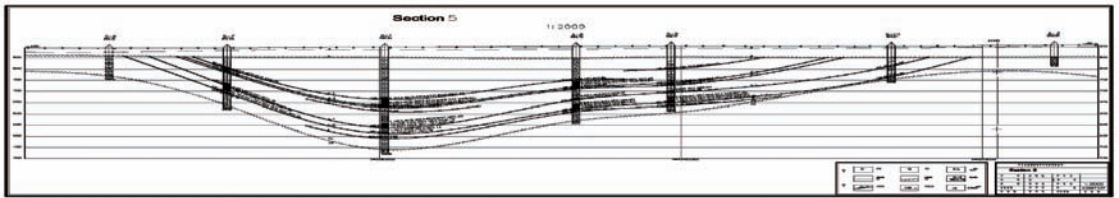
The seams subcrop on both sides of the syncline, the shallowest intersection being 50m whilst it is believed that in the axis of the syncline, coal seams will reach a depth of 460m.

Within Block #3, there is no evidence from the current exploration results of intrusives or faults.

Figure 5-1: Block #3 shown in Shaded Zone



**Figure 5-2: East-west Section through Guerbanhada Project Area**



## 6 COAL GEOLOGY

There are five identified groups of seams in the Lower Cretaceous Huolinhe Formation ranging from 0.3 to 18.9m in thickness (Table 6-1). The groups are comprised of many individual seams and are defined by marker seams which can be correlated from borehole to borehole.

**Group #1** seam, the highest seam in the stratigraphic sequence, has limited extent in Block #3 as it subcrops in the central section due to minor structural folding. The thickness of Group #1 coal ranges from 1.55m to 6.85m and averages 3.3m.

**Group #2** seam is the major mineable coal seam in the region. The group of seams that form Group #2 seam are complex in nature and quality and reach a maximum of 29m in thickness. Consequently, this group has been sub-divided into three smaller groups, #2-1, #2-2 and #2-3.

**Group #3** seam is generally too thin for economic extraction and has been excluded from the Resource estimation for Guerbanhada Project Area.

**Group #4** seam only exists in the northern portion of Block #3 and, like seam #2, is comprised of geologically complex seams reaching a maximum of 19.6m in thickness. This seam group has also been sub-divided into two smaller groups, #4-1 and #4-2.

**Group #5** seam, the lowermost seam in the sequence, is generally thin (less than 0.8m) and sparsely located in Block #3. Consequently, this seam group is excluded from the Resource estimation for Guerbanhada Project Area.

The seams were grouped into mineable working sections on the basis of the following criteria:

- Minimum coal thickness of 1.5m
- Maximum ash content of 40%
- Maximum sulphur content of 3%
- Minimum Calorific Value of 15.7MJ/kg

**Table 6-1: Seam Thickness Data for Guerbanhada Project Area**

No. of Coal Seam	Total Thickness			No. of Points	Recoverable Thickness			No. of Points
	Min	Max	Av.		Min	Max	Av.	
1-1	0.60	6.85	2.19	17	1.55	6.85	3.31	9
2-1	0.40	7.00	3.92	11	1.55	7.00	4.65	9
2-2	0.55	18.90	4.53	32	1.50	18.90	5.73	24
2-3	0.35	7.60	2.93	36	1.50	7.60	3.52	28
3-1	0.50	2.25	1.21	9	1.65	1.65	1.65	1
4-1	0.50	13.75	1.37	8	2.45	13.75	7.81	4
4-2	0.45	14.20	3.11	14	1.75	14.20	7.36	5

### Coal Quality

The coal in all groups (#1 to #5) mentioned above has a semi dull in lustre, typical of a thermal coal. The Guerbanhada coal project will produce a medium ash, medium sulphur, medium to high energy coal suitable for the Inner Mongolian domestic market. The current pricing for this coal is said to be in the order of 160 Yuan/tonne.

The coal quality of each seam varies significantly across the project area, as well as from seam to seam (Table 6-2).

**Table 6-2: Coal Quality for Major seam groups at Guerbanhada Coal Project**

Seam Group	Analytical Basis	Proximate Analysis			CV (ad) (MJ/kg)	Sulphur (ad)(%)
		Moisture (ad)	Ash (ad)	Volatile (daf)		
1-1	Raw coal	Range 15.55-16.44 Aver 16.00(2)	Range 21.55-26.92 Aver 24.22(2)	Range 46.10-49.82 Aver 47.96(2)	Range 20.75-22.20 Aver 21.48(2)	Range 1.84-1.87 Aver 1.86(2)
	Washed coal	10.22(1)	12.90(1)	45.05(1)	24.37(1)	1.86(1)
2-1	Raw coal	Range 3.59-12.08 Aver 7.84(2)	Range 15.97-26.59 Aver 21.28(2)	Range 43.01-46.16 Aver 44.59(2)	Range 18.68-23.54 Aver 21.11(2)	Range 1.75-1.84 Aver 1.80(2)
	Washed coal	12.08	15.97	46.16	23.54	1.84(1)
2-2	Raw coal	Range 4.35-19.61 Aver 9.87(3)	Range 17.46-21.33 Aver 20.40(3)	Range 43.95-45.66 Aver 44.73(3)	Range 21.51-23.47 Aver 22.64	Range 0.46-2.60 Aver 1.49
	Washed coal					
2-3	Raw coal	Range 4.03-20.71 Aver 11.30(7)	Range 13.78-32.61 Aver 23.62(7)	Range 43.95-50.74 Aver 46.75(7)	Range 19.04-24.76 Aver 21.84(7)	Range 0.43-3.46 Aver 1.65(7)
	Washed coal	Range 11.62-14.25 Aver 12.94(2)	Range 12.94-13.65 Aver 13.30(2)	Range 45.17-45.20 Aver 45.19(2)	Range 24.29-24.30 Aver 24.30(2)	Range 1.36-1.84 Aver 1.60(2)
4-1	Raw coal	7.19(1)	26.74(1)	45.58(1)	20.35(1)	2.43(1)
	Washed coal					
4-2	Raw coal	3.77	29.77	45.25	19.73	1.56
	Washed coal					

Note: (n) is the number of samples

Although some of the coal characteristics can be beyond the cut-off criteria for the working section, many of these can be blended to meet the criteria, especially for sulphur.

Total moisture was not analysed but from nearby coal mines, the expected in situ moisture is around 28%.

Relative Density results from 30 samples indicated a consistent result, and subsequently, a density of 1.28 gm/cc was used as the default value for all seams.

Coal quality analysis was conducted at two laboratories:

- Coal Industry Coal Quality Inspection Centre of Liaoning Province, which is approved and certified by the State Coal Quality Inspection Centre of the People's Republic of China (PRC), and

- the Shenyang Testing Centre of the Northeast Coalfield Geological Bureau. This testing centre is approved and certified by the Ministry of Land and Resources of the PRC.

It was noted that there was a difference in the inherent moisture results between the two laboratories, one reporting moistures ranging from 3% to 8%, while the other reporting ranges from 12% to 18%.

## 7 EXPLORATION

Regional mapping of the region was conducted between 1975 and 1977 by the Inner Mongolia Geologic Survey Bureau Regional Geological Survey No.4 Brigade. As most of the area is covered by Quaternary alluvials, the survey was of minimal value to the exploration of coal in the area.

Later, from 1982 to 1983, the Inner Mongolia Geophysical Survey Brigade carried out regional geophysical surveys including airborne magnetics, gravity and some seismic surveys.

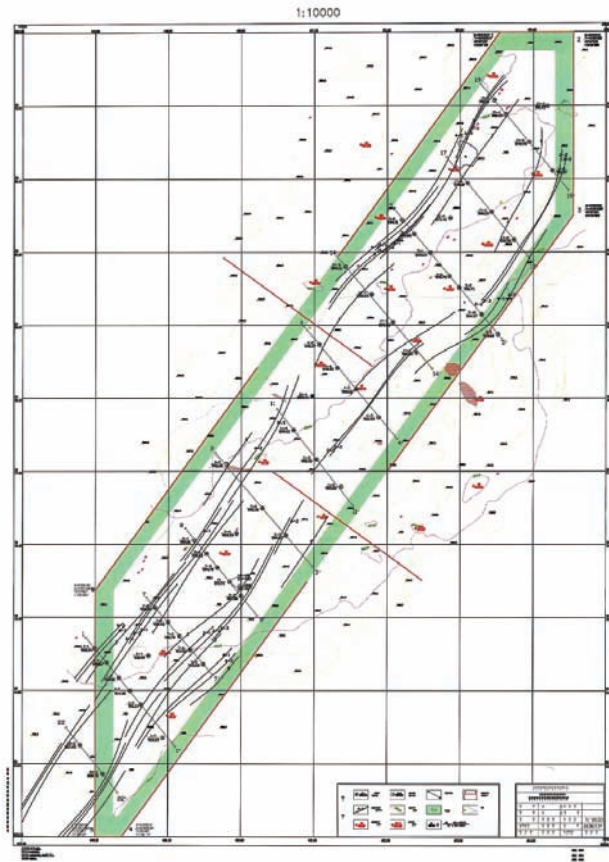
The recently completed drilling program was conducted by the Inner Mongolia Longwang Geological Exploration Co., Ltd, (Longwang) a privately owned consultancy providing exploration drilling rigs, downhole logging as well as geological supervision and reporting. The drilling program was completed on 16th November 2006.

Initially, 18 boreholes (4,680m) were drilled to determine the most prospective area within Guerbanhada project area (Figure 7-1). This proved to be Block #3.

A further 51 boreholes were completed in Block #3 with a total of 11,655m of drilling. All boreholes were logged using downhole geophysical logging tools including gamma, resistivity, and both short-spaced and long spaced density. Of the total, 97% of the drilling metres were geophysically logged successfully.

Topography was surveyed across 44.5km<sup>2</sup> of Block #3 at a scale of 1:10,000 accuracy. As well, all borehole collar locations were surveyed accurately.

**Figure 7-1: Borehole Location Plan for Guerbanhada Project Area**



## 8 DRILLING

Drilling was conducted along grid lines spaced 1km apart. Generally, boreholes were located 500m apart along each grid line.

All boreholes were fully cored from the surface. The Quaternary sediments were usually cased off to prevent collapsing of the borehole. The borehole diameter ranged from 90 to 110mm, while the core size was 68mm.

The drilling rigs were designed for conventional coring using a single tube core barrel. Therefore, the core was generally broken up after discharging it from the core barrel although there were many solid sticks of core in the order of 20 to 30cm long.

The non-coal core was logged and remains at the drill sites on the ground. Photographs were taken of all cores in 10 boreholes.

Of the 51 boreholes, 7 boreholes achieved a core recovery greater than 90% of the coal seams, while the remaining 44 boreholes achieved greater than 75% but less than 90% core recovery of the seams.

## 9 SAMPLING METHOD AND APPROACH

The coal core was wrapped and sealed in plastic wrap immediately upon recovery from the core barrel. The coal core was taken back to the exploration office in Huolinguo City 30km from the project area. At the office, the core was logged and photographed.

This method of handling the coal samples is in accordance with international coal industry standards as it ensures the coal remains fresh and does not lose too much of the total moisture of the coal.

Samples took between 10 to 20 days to reach the laboratory after the core was taken.

Samples were chosen on the basis of individual coal seams with a thickness greater than 1.5m.

85 samples from 22 boreholes were sent to the laboratories for analyses.

## 10 SAMPLE PREPARATION, ANALYSES AND SECURITY

Samples were analysed at two laboratories. Results for the inherent moisture of the coal varied significantly between the laboratories. One laboratory recorded moistures ranging from 3% to 8%, while the other laboratory results ranged from 12% to 18%.

This variation indicates that one of the laboratories did not analyse the samples correctly, and that the higher moisture results (12% to 18%) are likely to be incorrect. This type of “lignitic” coal requires longer than normal drying time to determine the correct inherent moisture due to the high total moisture content of the coal.

Therefore, it is in the opinion of the author that the lower inherent moistures (3% to 8%) are more accurate, and this will, in turn, reflect a higher air dried energy value.

## 11 DATA VERIFICATION

The data used in this report was obtained by the Inner Mongolia Longwang Geological Exploration Co., Ltd. Discussions between the exploration company and SRK confirmed the information concerning the drilling, data collection and collation were in accordance to internationally acceptable standards.

A site visit was conducted by SRK to the exploration office where discussions were held with the geologists responsible for the data collection. As well, an inspection of computer system used for managing the borehole data and estimating the Resources was conducted.

A site visit to the Guerbanhada project area was also conducted by SRK. An inspection of the drill core at the borehole sites was conducted for boreholes 5-1, 5-6, 7-3 and 14-4.

## 12 ADJACENT PROPERTIES

An inspection of an open cut mine located on the outskirts of Huolinguole City, 30km from the project area, was conducted. The nature of the coal seams could be studied, as well as the stability of the pit side slopes.

This open pit was a truck and shovel, multiple bench operation. The temperature at the time of the inspection was -26°C and it could be seen that the operation could continue under these adverse conditions.

The coal seams displayed lensing and fault features indicating the variable nature of the seams.

## 13 COAL BENEFICIATION TESTING

Beneficiation testing of coal seams was conducted by the laboratories named above. The results indicate that many seams benefited from washing. Seams 2-2, 4-1 and 4-2 indicate that they could meet the domestic market specifications requirement without the need for washing.

## 14 MINERAL RESOURCE AND MINERAL RESERVE ESTIMATES

SRK has visited and reviewed the project area as discussed in relevant sections of this Report. In SRK's opinion, there is a good geological understanding of this project to indicate that the exploration target is sufficiently prospective to warrant further investigations and expenditure.

SRK has carried out a review of the resources as provided by Longwang for Guerbanhada project and is satisfied that they have been calculated in adherence to the requirements as prescribed by the Chinese Resource and Reserve Standard.

Longwang calculated the Resource estimation using a CAD-based computer system to determine the area of the Resource blocks. The calculation of tonnage for each Resource block is derived from the product of the average seam thickness for the block, the area of the block and the default density of 1.28gm/cc.

SRK has reviewed and confirmed the Resource estimates presented in Table 14-1.



**Table 14-1: Estimate of Coal Resources for Guerbanhada Coal Project**

Coal Group	Coal Seam	Elevation of Coal	Coal Resources (Million tonnes)		Total Resources (Million tonnes)
			332	333	
#1 Coal	1	730 – 880		7	7
#2 Coal Group	2-1	660 – 860		7	7
	2-2	630 – 860	15	20	35
	2-3	625 – 865	15	24	39
#4 Coal Group	4-1	535 – 850		6	6
	4-2	510 – 855		12	12
<b>TOTAL</b>			<b>30</b>	<b>76</b>	<b>106</b>

An explanation of the Australian JORC Code and its relationship with the Chinese Resource and Reserve Standard is presented in Appendix 1.

If SRK were to convert this Resource estimation to the Australian JORC Code standards, the result would be equivalent to an Inferred Resource of 106Mt.

The Guerbanhada Coal Project is considered to be at the general survey stage of exploration at this point in time. Consequently, there is insufficient data to determine a mine design or to estimate a proven mineable reserve.

## 15 OTHER RELEVANT DATA AND INFORMATION

A preliminary analysis of the strip ratio of volume of waste to tonnes of coal was conducted, and the results indicated that most of the Resources reported could be mined using open cut methods. The first indication is that the southern part of Block #3 is of low strip ratio (less than 7:1).

## 16 INTERPRETATION AND CONCLUSIONS

The Guerbanhada Coal Project has been explored in detail to define a Resource of thermal coal suitable for the domestic market and amenable to open cut mining methods.

The borehole data has been well documented and the interpretation of the geology and coal seams has been conducted to international standards.

At this early stage of exploration activity, the classification of an Inferred Resource is encouraging to investors to commit to further development of the project. The next stage will aim to proving Measured and Indicated Resources in preparation for a full feasibility study.

Since the drilling to date has demonstrated the deposit has no igneous intrusions and little or no structural features, it can be concluded that there appears to be no issues that may cause any significant impact on the mining of the coal.

The Guerbanhada Coal Project has an excellent potential to be developed into an economic open cut coal mine servicing the Inner Mongolian domestic thermal market.

## **17 RECOMMENDATIONS**

It is recommended that the current information for Guerbanhada Coal Project is of sufficient merit to undertake a detail drilling program in Block #3 in order to prove the Coal Resources to higher categories. This drilling campaign is expected to fulfill the requirements for a final feasibility study and to test the sequence to basement to assess the coal seam quality and open cut potential at depth.

## **18 REFERENCES**

Inner Mongolia Longwang Geological Exploration Co., Ltd., *Guerbanhada area coal general exploration stage exploration report*. November 2006.

## **19 DATE AND SIGNATURE**

Dated this 30th day of March, 2007



---

**Patrick Hanna**  
Principal Consultant (Coal Geology)  
SRK Consulting

## APPENDICES

## APPENDIX 1: RESOURCE AND RESERVE STATEMENTS

## CATEGORISATION OF MINERAL RESOURCES AND ORE RESERVES

The system for the categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form “123”. This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	Chinese “Reserve” Category	
	Previous System	Current system
Measured	A	111, 111b, 121, 121b, 122, 122b, 2M11, 2M21, 2M22,
Indicated	B	2S21, 331
Inferred	C	112, 112b, 2S11, 2S12, 2S22, 332
	D	113, 113b, 123, 123b, 333

## RELATIONSHIP BETWEEN JORC CODE AND THE CHINESE RESERVES SYSTEM

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum ‘industrial’ or ‘economic’ grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent “JORC Code type” category. The traditional Categories B, C & D are broadly equivalent to the ‘Measured’, ‘Indicated’, and ‘Inferred’ categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the ‘Measured Resource’ category has the most confidence and the ‘Inferred’ category has the least confidence, based on the increasing levels of geological knowledge and continuity of mineralisation.

With regards to the new Chinese Category Scheme, as shown in the following table, the three numbers refer to economic, feasibility/mine design and geological degrees of confidence.

### Definition of the new Chinese Category Scheme

Category	Denoted	Comments
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in “2” by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

### APPENDIX 2: GLOSSARY OF TERMS

Abbreviation	Terminology
°	degrees
°C	degrees Celsius
cm	centimetre/s
Competent Person	A geologist or engineer with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination thereof, has experience relevant to the subject matter of the mineral project and the technical report and is a member in good standing of a professional association
CPR	Competent Person’s Report
gm/cc	grams per cubic centimetre
Group	Kiu Hung and its subsidiaries
J;d	Daotenuoer Formation

JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004)
JORC Committee	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
K <sub>1h</sub>	Huolinhe Formation
Kiu Hung	Kiu Hung International Holdings Limited
km	Kilometre/s
km <sup>2</sup>	square kilometre/s
Longwang	Inner Mongolia Longwang Geological Exploration Co., Ltd
m	metre/s
Mg/kg	Megajoules/kilogram
MLR	Ministry of Land and Resources
mm	millimetre/s
Mt	Million tonne/s
Pliocene age, N <sub>2</sub>	Tertiary sediments
Q4	Quaternary
SRK	Steffen Robertson and Kirsten (Australasia) Pty Ltd trading as SRK Consulting

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**2. SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Shares of HK\$0.02 each	<u>100,000,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>		
2,996,253,800	Shares of HK\$0.02 each	59,925,076.00
243,792,280	Consideration Shares of HK\$0.02 each to be issued pursuant to the New Acquisition Agreements	4,875,845.60
118,207,720	Consideration Shares of HK\$0.02 each to be issued pursuant to the 2nd Acquisition Agreement	2,364,154.40
<u>3,358,253,800</u>		<u>67,165,076.00</u>

All Shares in issue rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

All Consideration Shares shall rank pari passu with all the Shares in issue in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of allotment and issue of such Consideration Shares.

## 3. DISCLOSURE OF INTERESTS

## (A) Interests of Directors and Chief Executive

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Name of Directors	Number of Shares held	Capacity	Approximate shareholding
Hui Kee Fung (Note)	1,567,500,000 (L)	Interest of a controlled corporation	52.32%
Hui Ki Yau (Note)	1,567,500,000 (L)	Interest of a controlled corporation	52.32%

*L: Long Position*

*Note:* The Shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, 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.

- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and
- (c) None of the Directors had any interest, direct or indirect, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Group.
- (d) As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement which was significant in relation to the business of the Enlarged Group taken as a whole.

**(B) Substantial Shareholders**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, 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 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 held	Capacity		Approximate shareholding
		Beneficial	Other	
Legend Win Profits Limited (Note)	1,567,500,000 (L)	1,567,500,000	–	52.32%
Yu Won Kong, Dennis	344,500,000 (L)	344,500,000	–	11.50%

*L: Long Position*

*Note:*

The Shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, 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.

**(C) Substantial shareholders of other members of the Enlarged Group**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (other than a Director or chief executive of the Company) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group were as follows:

Name of company	Name of Shareholder	Number of Shares held	Capacity		Approximate Shareholding
			Beneficial	Other	
First Choice	Ms. Lee	1 (L)	1 (L)	–	100%
Jumplex	Mr. Choi	1 (L)	1 (L)	–	100%
Mingrunfeng	Mr. Yang	–	–	–	32.65%
Mingrunfeng	Jumplex	–	–	–	12.24%
Mingrunfeng	First Choice	–	–	–	16.33%



Name of company	Name of Shareholder	Number of Shares held	Capacity		Approximate Shareholding
			Beneficial	Other	
Mingrunfeng	Wise House	-	-	-	38.78%
Miracle For Fun (HK) Limited	Miracles For Fun, LLC	33 (L)	33 (L)	-	33%
Toland International Limited	Mr. Bruce Warren Solly	30 (L)	30 (L)	-	30%
Wise House	Mr. Chan	22,680 (L)	22,680 (L)	-	63%
Wise House	Mr. Chung	13,320 (L)	13,320 (L)	-	37%

*L: Long Position*

Save as disclosed herein, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested or had short position in the Shares or underlying Shares 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.

#### 4. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

There are no claims in relation to the exploration rights or mining rights of the Coal Mine made or notified either by third parties against any member of the Enlarged Group or vice versa.

#### 5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group nor were there any other service agreements proposed which would not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation).

## 6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

- (a) the sale and purchase agreement dated 19 April 2005 entered into between Legend Wealth Holdings Limited, Mr Hui Kee Fung, Mr Hui Ki Yau, Madam Hui Hung Tan, Teresa and Kiu Hung Holdings Limited in relation to the disposal of the entire issued share capital of and the shareholder's loan due by Huge Profit Enterprises Limited at an aggregate consideration of HK\$14,029,905;
- (b) the sale and purchase agreement dated 17 December 2005 entered into between Pine Growth International Limited and Miracles For Fun, LLC in relation to the acquisition of 33% of the issued share capital of Miracles For Fun (HK) Limited at a consideration of HK\$1;
- (c) the underwriting agreement dated 5 July 2006 entered into between the Company and Kingston Securities Limited and Luen Fat Securities Company Limited in relation to the Open Offer of 774,837,000 offer shares at HK\$0.05 per offer share;
- (d) the share transfer agreement dated 2 August 2006 entered into between Mr. Yang, 肖鋒 (Xiao Feng)<sup>#</sup>, 何小平 (He Xiaoping)<sup>#</sup> and Wise House in relation to the acquisition of the 38.78% of the paid up capital of Mingrenfung at an aggregate consideration of RMB193,900 (equivalent to approximately HK\$193,900);
- (e) the share transfer agreement dated 2 August 2006 entered into between 何小平 (He Xiaoping)<sup>#</sup> and First Choice in relation to the acquisition of the 16.33% of the paid up capital of Mingrenfung at an aggregate consideration of RMB81,650 (equivalent to approximately HK\$81,650);
- (f) the share transfer agreement dated 2 August 2006 entered into between 肖鋒 (Xiao Feng)<sup>#</sup> and Jumplex in relation to the acquisition of the 12.24% of the paid up capital of Mingrenfung at an aggregate consideration of RMB61,200 (equivalent to approximately HK\$61,200); and
- (g) the Agreements;
- (h) the 1st Acquisition Agreement; and
- (i) the Cancellation Agreement.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Enlarged Group) have been entered into by any member of the Group within the two years preceding the date of this circular.

## 7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

The following sets out the procedures by which the Shareholders may demand a poll at the EGM.

According to article 66 of the articles of association of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person or in the case of a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

## 8. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes with the business of the Group.

## 9. EXPERTS AND CONSENTS

- (a) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Cachet Certified Public Accountants Limited (“Cachet”)	Certified Public Accountants
Castores Magi Surveyors Limited (“Castores Magi”)	Professional surveyors
Guantao Law Firm (觀韜律師事務所) (“Guantao”)	Practising lawyers in the PRC
Longwang	Geological exploration company in the PRC
SRK Consulting	Mining engineering consultants
Trend Associates (福建創元律師事務所)	Practising lawyers in the PRC

- (b) None of Cachet, Castores Magi, Guantao, Longwang, SRK Consulting and Trend Associates has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Each of Cachet, Castores Magi, Guantao, Longwang, SRK Consulting and Trend Associates has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.
- (d) None of Cachet, Castores Magi, Guantao, Longwang, SRK Consulting and Trend Associates has any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (e) SRK Consulting did not have any interest, direct or indirect, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Group.

## 10. MISCELLANEOUS

- (a) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.
- (b) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.
- (c) The company secretary and qualified accountant of the Company is Mr. CHAN Kwok Yuen, Elvis, CPA, FCCA.
- (d) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the head office and principal place of business of the Company in Hong Kong is at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.
- (e) The principal share registrar in the Cayman Islands of the Company is Butterfield Fund Services (Cayman) Limited, P.O. Box 705, Butterfield House, 68 Fort Street, George Town, Grand Cayman, Cayman Islands.
- (f) The branch share registrar of the Company in Hong Kong is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (g) The English text of this circular and form of proxy shall prevail over their respective Chinese texts.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of the Company in Hong Kong at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2005;
- (c) the interim report of the Company for the six months ended 30 June 2006;
- (d) the accountants' report on Jumplex, First Choice, Wise House and Mingrunfeng, the text of which is set out in Appendix II to this circular;
- (e) the report on the unaudited pro forma financial information of the Enlarged Group prepared by Cachet, the text of which is set out in Appendix III to this circular;
- (f) the written statement signed by Cachet setting out the adjustments made by them in arriving at the figures shown (d) above;
- (g) the letter, summary of values and valuation certificate prepared by Castores Magi in relation to the property valuation of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (h) the technical assessment report prepared by SRK Consulting, the text of which is set out in Appendix V to this circular;
- (i) the exploration report prepared by Longwang in November 2006;
- (j) the PRC Legal Opinion;
- (k) the letters of consents referred to under the paragraph headed "Experts and consents" in this Appendix;
- (l) the material contracts referred to under the paragraph headed "Material contracts" in this Appendix;
- (m) the circular of the Company dated 13 January 2006 in relation to a discloseable transaction of the acquisition of 33% issued share capital of Miracles For Fun (HK) Limited; and
- (n) the circular of the Company dated 12 January 2007 in relation to continuing connected transactions of the Group.



僑雄國際控股有限公司

**Kiu Hung International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 381)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “Meeting”) of Kiu Hung International Holdings Limited (the “Company”) will be held at the Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 16 April 2007 at 2:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

**“THAT:**

- (a) the capital contribution agreement (the “Capital Contribution Agreement”) dated 2 September 2006 entered into between Bright Asset Investments Limited (“Bright Asset”), an indirect wholly-owned subsidiary of the Company, Mr. Yang Runzhi (“Mr. Yang”), Jumplex Investments Limited (“Jumplex”), First Choice Resources Limited (“First Choice”) and Wise House Limited (“Wise House”, together with Mr. Yang, Jumplex and First Choice, the “Original Shareholders”) relating to the contribution of RMB20 million (equivalent to approximately HK\$20 million) to the capital of Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)<sup>#</sup> (“Mingrunfeng”), a copy of which has been produced to this Meeting marked “A” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the loan facility agreement (the “Loan Facility Agreement”) dated 22 September 2006 entered into between Bright Asset and Mingrunfeng relating to the provision of a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK\$40 million), a copy of which has been produced to this Meeting marked “B” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (c) the guarantee agreement (the “Guarantee Agreement”) dated 22 September 2006 entered into between Bright Asset and the Original Shareholders relating to the provision of guarantees for any future loan facilities which may be secured by Mingrunfeng in proportion to the interests of Bright Asset and the Original Shareholders in Mingrunfeng from time to time, a copy of which has been produced to this Meeting marked “C” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (d) the deposit agreement (the “Deposit Agreement”) dated 2 September 2006 and entered into, among others, between Bright Asset, a nominee of Bright Asset and the Original Shareholders relating to the payment of the deposit under the Capital Contribution Agreement, a copy of which has been produced to this Meeting marked “D” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

---

## NOTICE OF THE EGM

---

- (e) the agreement (the “Jumplex Acquisition Agreement”) dated 16 January 2007 entered into between Bright Asset and Mr. Choi Pui Sze (“Mr. Choi”) relating to the sale and purchase of the entire issued share capital of Jumplex, a copy of which has been produced to this Meeting marked “E” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, including but not limited to the allotment and issue of 44,350,175 shares (each a “Share”) of HK\$0.02 each in the share capital of the Company to Mr. Choi at an issue price of HK\$0.33 per Share, credited as fully paid, be and are hereby approved, confirmed and ratified;
- (f) the agreement (the “First Choice Acquisition Agreement”) dated 16 January 2007 entered into between Bright Asset and Ms. Lee Sai Yin, Jeanne (“Ms. Lee”) relating to the sale and purchase of the entire issued share capital of First Choice, a copy of which has been produced to this Meeting marked “F” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, including but not limited to the allotment and issue of 59,103,859 Shares to Ms. Lee at an issue price of HK\$0.33 per Share, credited as fully paid, be and are hereby approved, confirmed and ratified;
- (g) the agreement (the “Wise House Acquisition Agreement”) dated 16 January 2007 entered into between Bright Asset, Mr. Chan Aik Huat, Simon (“Mr. Chan”) and Mr. Chung Cheuk Wah, Sammy (“Mr. Chung”) relating to the sale and purchase of the entire issued share capital of Wise House, a copy of which has been produced to this Meeting marked “G” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, including but not limited to the allotment and issue of 88,413,095 Shares and 51,925,151 Shares to Mr. Chan and Mr. Chung respectively at an issue price of HK\$0.33 per Share, credited as fully paid, be and are hereby approved, confirmed and ratified;
- (h) the agreement (together with the Capital Contribution Agreement, the Loan Facility Agreement, the Guarantee Agreement, the Jumplex Acquisition Agreement, the First Choice Acquisition Agreement and the Wise House Acquisition Agreement, the “Acquisition Agreements”) dated 16 January 2007 entered into between Bright Asset and Mr. Yang relating to the sale and purchase of 16% equity interests in Mingrunfeng, a copy of which has been produced to this Meeting marked “H” and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, including but not limited to the allotment and issue of 118,207,720 Shares to Mr. Yang at an issue price of HK\$0.33 per Share, credited as fully paid, be and are hereby approved, confirmed and ratified; and

---

## NOTICE OF THE EGM

---

- (i) any one or more of the directors of the Company from time to time be and is/are hereby authorised to do all such acts and things and execute all such documents which it/they consider necessary or expedient in its/their absolute discretion to implement and/or give effect to the Agreements and the transactions contemplated thereunder.

By order of the Board of  
**Kiu Hung International Holdings Limited**  
**Hui Kee Fung**  
*Chairman*

Hong Kong, 30 March 2007

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Head office and principal place  
of business in Hong Kong:*

14th Floor  
Yale Industrial Centre  
61-63 Au Pui Wan Street  
Fo Tan, Shatin  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at [www.hkex.com.hk](http://www.hkex.com.hk). In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.