Kiu Hung Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00381)

DELIVER OUR FUTURE

2009 Annual Report

Contents

Corporate Information

Executive Directors

Mr. Hui Kee Fung *(Chairman)*
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*
Mr. Guo Tianjue
Mr. Lam Kit Sun

Independent Non-executive Directors

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Mohammed Ibrahim Munshi

Company Secretary

Mr. Cheung Kai Fung *CPA, FCCA*

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Cayman Islands

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Auditor

RSM Nelson Wheeler
Certified Public Accountants
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Hong Kong

Company's Website

http://www.kiuhung.com

Principal Bankers

Bank of China (Hong Kong) Limited
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1 Garden Road
Central
Hong Kong

Bank of China
Putian Branch
No. 560 Wenxian Road
Putian
Fujian
PRC

Industrial and Commercial Bank of China
Putian County Branch
No. 218 Sheng Li Road
Putian
Fujian
PRC

Wing Hang Bank
Head Office
161 Queen's Road
Central
Hong Kong

Cayman Islands Principal Share Registrar And Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705 George Town
Grand Cayman
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Cayman Islands

Hong Kong Branch Share Registrar And Transfer Office

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Wanchai
Hong Kong

Management's Statement

On behalf of the board of the directors (the "Board") of Kiu Hung Energy Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2009 (the "Year").

Results and Dividends

For the financial year ended 31 December 2009, the Group recorded turnover and loss attributable to shareholders of approximately HK$121.6 million (2008: approximately HK$133.4 million) and approximately HK$64.3 million (2008: approximately HK$253.1 million), respectively. Basic loss per share for the year was HK1.55 cents (2008: HK6.54 cents). The Board does not recommend the payment of any dividend in respect of the year.

The Group recorded fair value loss on financial liabilities at fair value through profit or loss amounting to approximately HK$110.1 million in other operating expenses for the Year while the Group recorded net fair value revaluation loss of assets amounting to HK$383.2 million for the year ended 31 December 2008 (among which included approximately HK$473.4 million of impairment loss on exploration and evaluation assets, approximately HK$20.3 million of impairment loss on goodwill, approximately HK$35.5 million of impairment loss on mining rights in other operating expenses and less fair value gain on derivative component of convertible notes approximately HK$146.0 million in other income). The Group also recorded gain on derecognition of convertible notes upon change of terms amounting to approximately HK$88.9 million (2008: Nil) in other income. These were all non-cash items and were not expected to have material adverse effects on the Group's cash flow.

Business Review

Toys and Gifts Business

Looking back over the past year, given the global economy was still sluggish on the impact of the financial crisis, the Group's toys and gifts business was affected to a certain extent and revenue of the toy's and gift business for 2009 decreased by approximately 9.17% over last year. Household utility product business was strengthened as a result of the implementation of product mix adjustment by the Group and the Group had secured sale orders from a number of prestigious customers. Nevertheless, gross profit margin still contracted from 31.2% in 2008 to 25.2% in 2009, despite the stringent cost control measures and product mix adjustments adopted by the Group.

Coal Business

Mining resources of the Group include (i) the mining rights of Huanghuashan Coal Mine located in the Inner Mongolia Autonomous Region ("Inner Mongolia") of the People's Republic of China ("PRC"), which has estimated coal resources of approximately 7.85 million tons of semi-anthracite coal and (ii) the exploration rights of the Banyahushuo Coalfield located in Inner Mongolia, which as estimated coal resources of approximately 434.76 million tons of high quality thermal coal. In addition to (iii) the 128.86 million tons of thermal coal resources of the Guerbanhada Coal Mine located in Inner Mongolia, the total amount of coal resources of the Group is over 570 million tons.

I am pleased to announce that the coal production of Huanghuashan Coal Mine was officially commenced in December 2009. The Group is in the process of preparing documents required in respect of the mining license application of the Guerbanhada Coal Mine. For Bayanhushuo Coalfield, it is expected that the Group will perform the final stage of exploration in 2010.

The past year was both difficult and challenging for the Group. As a result of the efforts of our dedicated staff and management team, we have completed a new move for the development of our coal energy business, which has laid the foundation for our future growth and diversification of our business operations.

Management's Statement

Prospects

In 2010, the Group will focus on the continuous development of our coal energy business. On 24 February 2010 (complemented by supplemental agreement dated 3 March 2010), the Group has entered into a contract to acquire three coal mines in the Khovd Province of Mongolia at a total price of HK$1,439.1 million. The mines are preliminarily estimated to have coking coal resources of not less than 360 million tons (the "Acquisition"). Coking coal is a high quality coal mainly used in steelmaking. Along with the growth in China's steelmaking volume, there is also a constant increase in the demand for coking coal. In China, coking coal production is insufficient to meet the demand of the steelmaking industry,. Mongolia is located in the northern part of China where high quality coking coal can be found and its geographical location which is in close proximity to regions of Xinjiang and Inner Mongolia in Northwest China is advantageous for providing supplies to the local steel industry. Therefore, the Group's acquisition plan in Mongolian is in line with the business development strategies of our coal business. The Acquisition is yet to be completed. For further details of the Acquisition, please refer to the Company's announcements on 3 February, 17 March and 7 April in this year. Further details on the Acquisition will be announced by the Company at appropriate time.

On 1 April 2010, the Group concluded a non-binding Memorandum of Understanding on the possibility of acquisition ("Potential Acquisition") of Sino View Group Limited (the "Target"). The principal assets of the Target is ten coal mines in Guizhou which are preliminarily estimated to have coal resources of approximately 690 million tons and the Target and its subsidiaries ("Target Group") will hold one exploration and nine mining licenses of the mines upon completion of restructuring. The total price for the Potential Acquisition shall not be over HK$5.8 billion but shall exceed HK$4 billion. Besides, if formal agreement is to be concluded going forward, the formal agreement will include a term to the effect that the vendor will irrevocably warrant and guarantee to the Group that the audited consolidated profits after tax of the Target Group for the financial year ending 31 December 2010 and 31 December 2011 will not be less than RMB200 million and RMB400 million, respectively. For further details of the Potential Acquisition, please refer to the Company's announcements on 1 April 2010. Further details on the Potential Acquisition will be announced by the Company at appropriate time.

Along with the gradual stabilization of the global economy and the continuous economic growth in China, the Group will continue to explore other investment opportunities in the energy industry with earning potentials in order to transform itself into an energy conglomerate with sustainable growth prospect aiming at maximizing the benefits for shareholders. I believe our coal business will lead the Group into a high growth era and we are confident in the prospects of the Group.

Appreciation

On behalf of the Board, I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, business partners and parties from various fields, and also for the contribution and dedication of our management and staff in last year.

Yu Won Kong, Dennis
Chief Executive Officer

Hong Kong, 29 April 2010

Management Discussion and Analysis

Financial Highlights

For the financial year ended 31 December 2009 (the "Year"), the Group recorded a turnover of approximately HK$121.6 million (2008: HK$133.4 million), representing a decrease of approximately 8.8% as compared with the preceding year. The Group's loss attributable to shareholders for the Year was approximately HK$64.3 million (2008: HK$253.1 million). Basic loss per share for the Year was HK1.55 cents (2008: HK6.54 cents).

The Group recorded fair value loss on financial liabilities at fair value through profit or loss amounting to approximately HK$110.1 million in other operating expenses while the Group recorded net fair value revaluation loss of assets amounting to HK$383.2 million for the year ended 31 December 2008 (among which included approximately HK$473.4 million of impairment loss on exploration and evaluation assets, approximately HK$20.3 million of impairment loss on goodwill, approximately HK$35.5 million of impairment loss on mining rights in other operating expenses and less fair value gain on derivative component of convertible notes approximately HK$146.0 million in other income). The Group also recorded gain on derecognition of convertible notes upon change of terms amounting to approximately HK$88.9 million in other income (2008: Nil). These were all non-cash items and were not expected to have material adverse effects on the Group's cash flow.

Dividend

The board of directors does not recommend the payment of any dividend in respect of the Year (2008: Nil).

Business and Operational Review

Segmental Information Analysis

During the Year, the Group continued to engage in the design, manufacture and sale of toys and gifts products and the mining and exploration of natural resources. The Group has two reportable segments, namely "Manufacturing and trading of toys and gifts" items and "Exploration and mining of natural resources".

Manufacturing and trading of toys and gifts items

Since the Global Economy has not fully recovered from the Financial Turmoil in prior years, the Group has experienced a certain level of impact on sales and profit margin in its toys and gifts business. Turnover from toys and gift business is approximately HK$121.1 million (2008: HK$133.4 million), representing a decrease of approximately 9.2% as compared with the preceding year. Under this challenge, the Group restructured its product mix and focused on household utility products and closely monitor on cost control. The gross profit ratio of its toys and gifts business was 28.3% for the Year (2008:31.2%).

Exploration and mining of natural resources

The Group owned three coal mines, namely the Huanghuashan Coal Mine, the Guerbanhada Coal Mine and the Bayanhushuo Coalfield with a total of approximately 571.5 million tons of coal.

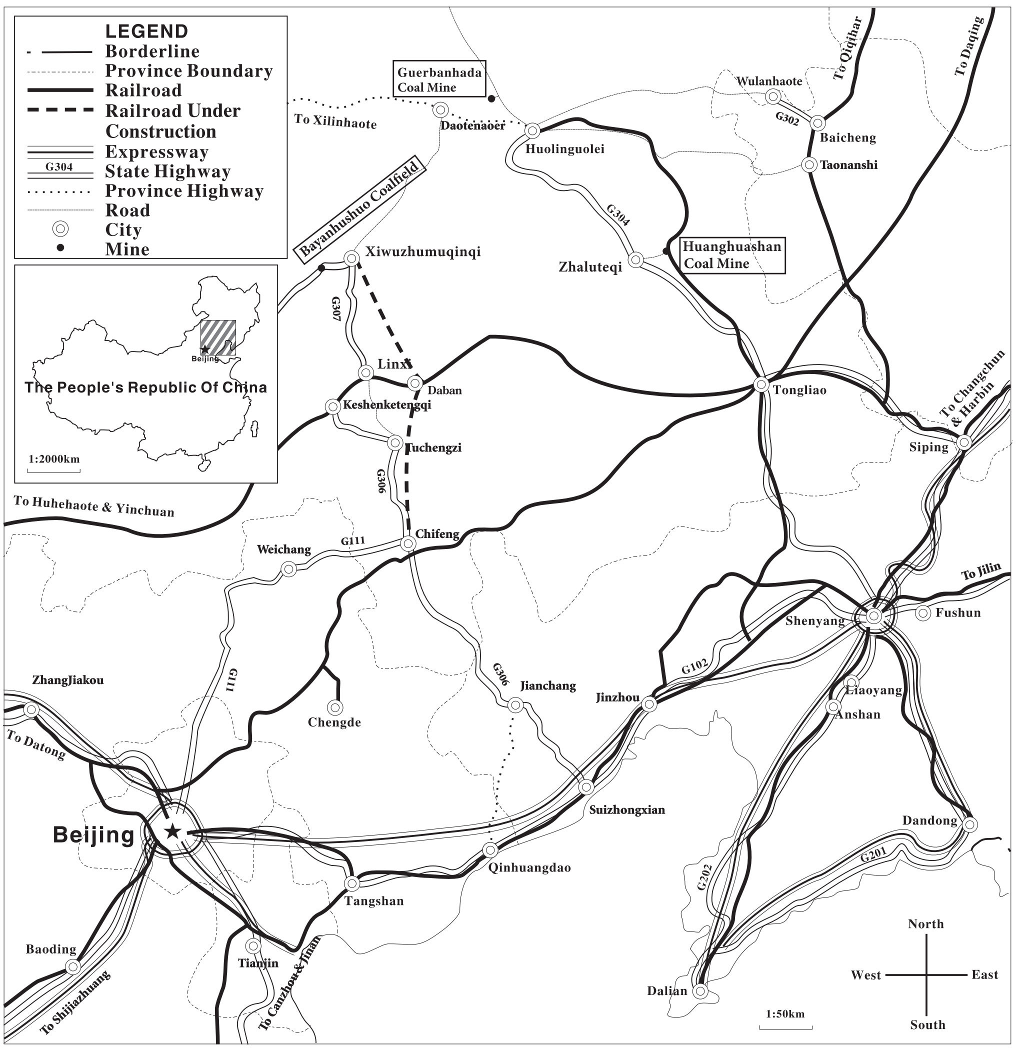
The Huanghuashan Coal Mine had officially commenced production in December 2009 as scheduled and recorded a revenue of HK$421,000 during the Year (2008: Nil). The Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia Autonomous Region ("Inner Mongolia") in China and is close to the railway. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, the Huanghuashan Coal Mine has estimated coal resources of approximately 7.85 million tons of semi-anthracite coal.

Management Discussion and Analysis

The Guerbanhada Coal Mine is located in Xilinguolemeng of Inner Mongolia and is close to highways and railways. According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, the Guerbanhada Coal Mine has an estimated coal resources of approximately 106 million tons of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. According to a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007, the estimated coal reserve of the Guerbanhada Coal Mine has increased to approximately 128.86 million tons as a result of the completion of the detailed stage of exploration. The Group is in the process of preparing documents required in respect of the mining license application of the Guerbanhada Coal Mine.

Bayanhushuo Coalfield is located in Xilinguolemeng of Inner Mongolia in the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, the Bayanhushuo Coalfield has estimated coal resource of approximately 434.76 million tons of high quality thermal coal.

Location of Our Coal Projects



Geographic information

During the year, the North American includes the United States of America and Canada recorded as largest drop in revenue by geographic market, where turnover amounted to approximately HK$91.1 million compared to HK$104.5 million last year and represented 74.9% of the Group's total sales. Sales in the European Union (includes Spain, Italy, France and United Kingdom), represented approximately 15.3% of the Group's total sales, increased from approximately HK$11.8 million last year to HK$18.6 million for the Year.

Other income

Other income for the Year decreased by approximately 39.9% to approximately HK$93.4 million when compared to approximately HK$155.5 million incurred in the previous year. The decrease was mainly due to the net effect of (i) decrease of the recognition of fair value gain on derivative component of convertible notes amounting to HK$145.1 million; (ii) increase on gain on derecognition of convertible notes upon change of terms amounting to HK$88.9 million; and (iii) decrease in gain on disposal of subsidiaries amounting to HK$7.0 million.

Selling and distribution expenses

Selling and distribution expenses for the Year decreased by approximately 12.2% to approximately HK$15.8 million when compared to approximately HK$18.0 million incurred in the previous year. The decrease was mainly due to the implementation of cost control over the Year.

Administrative expenses

Administrative expenses for the Year increased by approximately 9.6% to approximately HK$34.4 million when compared to approximately HK$31.4 million incurred in the previous year. The increase was mainly due to additional administrative expenses was incurred for the development of mining and exploration of coal business

Other operating expenses

Other operating expenses for the Year decreased by approximately 78.8% to approximately HK$113.1 million when compared to approximately HK$532.3 million incurred in the previous year. The decrease was mainly due to the Group incurred total impairment loss amounting to HK$529.2 million in the previous year (among which included approximately HK$473.4 million of impairment loss on exploration and evaluation assets, approximately HK$20.3 million of impairment loss on goodwill, approximately HK$35.5 million of impairment loss on mining rights), while the Group only incurred fair value revaluation loss on financial liabilities at fair value through profit or loss amounting to approximately HK$110.1 million for the Year and no other impairment loss on the Group's assets was recorded for the Year.

Finance costs

Finance cost for the Year increased by approximately 23.5% to approximately HK$23.1 million when compared to approximately HK$18.7 million incurred in the previous year. The increase was mainly due to the increase of the bank loan interest by approximately HK$4,494,000 as the result of the increase of the bank loans during the Year.

Income tax

For the year ended 31 December 2008, the Group recorded income tax credit of approximately HK$150.1 million while the Group recorded income tax expenses of approximately HK$2.0 million for the Year. The increase of income tax expenses by approximately HK$152.1 million is mainly due to the recognisation of deferred tax credit amounting to HK$151.0 million in the previous year as a result of the recognition of the impairment loss of the mining rights and exploration and evaluation assets. As the Group did not have any other impairment loss on the mining rights and exploration and evaluation assets for the Year, the Group did not record any deferred tax credit for the Year.

Management Discussion and Analysis

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 People's Republic of China ("PRC"). The Group had cash and bank balances of approximately HK$82.7 million as at the year end date (2008: HK$69.0 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2009, the Group's bank and other borrowings amounted to approximately HK$42.9 million (2008: HK$57.3 million), out of which approximately 89.3% (2008: 67.9%) was repayable within one year. The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, of which approximately 88.3% (2008: 93.4%) bore interest at fixed lending rate.

In addition, the Group had financial liabilities at fair value through profit or loss of approximately HK$302.7 million at 31 December 2009 (2008: Nil), out of which (i) approximately HK$157.2 million was transfer from the convertible note at 31 December 2008 upon change of terms as disclosed in the Company's circular dated 20 October 2009; (ii) approximately HK$35.4 million was subscribed by capitalising the equivalent outstanding principal amount of the promissory notes during the year as disclosed in the Company's circular dated 20 October 2009; and (iii) a fair value loss on financial liabilities at fair value of approximately HK$110.1 million during the year.

As at 31 December 2008, the Group had the promissory notes of approximately HK$95.4 million. Out of which, approximately HK$60 million of the promissory notes was repaid during the year and approximately HK$35.4 million was capitalised to subscribe the financial liabilities at fair value through profit or loss with the same amount. The Group did not have any outstanding promissory notes as at 31 December 2009.

As at 31 December 2008, the Group had the derivative financial instruments of approximately HK$1.1 million. Out of which, approximately HK$979,000 was recognised as fair value gain on derivative component in the consolidated income statement and approximately HK$80,000 was recognised as gain on derecognition upon change of terms as disclosed in the Company's circular dated 20 October 2009. The Group did not have any outstanding derivative financial instruments as at 31 December 2009.

As at 31 December 2008, the Group had the convertible notes of approximately HK$234.1 million. The Group also incurred interest expenses for the convertible notes of approximately HK$11.9 million for the year ended 31 December 2009. On 20 October 2009, the total outstanding amount of convertible note is approximately HK$246.0 million. Upon change of terms as disclosed in the Company's circular dated 20 October 2009, convertible notes of approximately HK$157.2 million was transferred to financial liabilities at fair value through profit and loss account and the remaining balance of approximately HK$88.9 million was recognised as gain on derecognition. The Group did not have any outstanding convertible notes as at 31 December 2009.

The debt to equity ratio of the Group calculated as a ratio of total bank and other borrowings (including promissory notes, convertible notes, derivative financial instruments and financial liabilities at fair value through profit or loss) to total equity was approximately 104.3% as at 31 December 2009 (2008: 134.6%).

Net current assets of the Group as at 31 December 2009 was approximately HK$17.5 million (2008: net current liabilities of approximately HK$77.5 million) and the current ratio of the Group was approximately 122.1% (2008: 53.8%).

As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant and the Group had not used any financial instruments for hedging during the year.

As at 31 December 2009, certain property, plant and equipment and prepared land lease payments held by the Group with carrying values of approximately HK$28.0 million (2008: 9.3 million) and 4.7 million (2008: Nil), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2009, the Group did not have any significant capital commitment or contingent liabilities (2008: Nil).

Material Acquisitions

The Group did not have any material acquisition for the year ended 31 December 2009.

Business Prospects and future plans for material investment

We believe our coal business is important for the Group as it enable us to tap the energy and natural resources business and to enter into a diversified and high growth development stage. We are positive about the prospect of the coal mining industry in the PRC. As coal is the major source of the PRC's primary energy consumption, we believe that the demand for coal from the electricity and other industries will continue to be robust in the foreseeable future in view of the continual economic growth in the PRC.

Going forward, the Group will continue to explore other investment opportunities in the energy and natural resources industries that have earning potentials in order to expand its existing operations and to diversify its business.

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

In 2010, we closely look into coal mine projects in Mongolia. We believe that the substantial proven coal resources in Mongolia are not only a good fit for our energy business expansion strategy also fulfills the increasing coal importing demand of China. Mongolia is estimated to have huge amount of coal reserves, and the exporting amount of coal products to China is expected to increase sharply due to the increasingly friendly regulations for cross border trading from both sides. Though the lack of infrastructure in Mongolia is one of the reasons that coal reserves have not been well-developed in the past, the continuing attention and geographically advantage of Mongolia is still one of the best options to fulfill the future coal product demands in north-western part of China.

On 1 April 2010, the Group concluded a non-binding Memorandum of Understanding on the possibility of acquisition ("Potential Acquisition") of Sino View Group Limited (the "Target"). The principal assets of the Target is ten coal mines in Guizhou which are preliminarily estimated to have coal resources of approximately 690 million tons and the Target and its subsidiaries ("Target Group") will hold one exploration and nine mining permits of the mines upon completion of restructuring. The total price for the Potential Acquisition shall not be over HK$5.8 billion but shall exceed HK$4 billion. Besides, if formal agreement is to be concluded going forward, the formal agreement will include a term to the effect that the vendor will irrevocably warrant and guarantee to the Group that the audited consolidated profits after tax of the Target Group for the financial year ending 31 December 2010 and 31 December 2011 will not be less than RMB200 million and RMB400 million, respectively. For further details of the Potential Acquisition, please refer to the Company's announcements on 1 April 2010. Further details on the Potential Acquisition will be announced by the Company at appropriate time.

As the Group has an aggregate amount of existing coal resources of over 570 million tons, we will be able to tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value. With the committed efforts of the staffs and management, we are confident and optimistic on the prospects of the Group.

Capital Structure and Use of Proceeds

As at 31 December 2009, the capital structure of the Company is constituted of 4,427,306,800 ordinary shares of HK$0.02 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options and warrants to subscribe for shares in the Company.

During the year, 11,547,000 new shares (2008: 2,169,200 new shares) have been issued by the Company as a result of the exercise of share options by the option holders. During the year, 27,000,000 new share options (2008: Nil) have been granted under the share option scheme adopted by the Company. As at 31 December 2009, 56,018,600 share options remained outstanding (2008:40,175,600 share options).

Pursuant to the Company's announcement dated 20 October 2009, 200,000,000 non-listed warrants (the "Warrants") have been issued by the Company at HK$0.0025 per unit of warrant to five subscribers, namely Chan Shuk Ling, Cheng Mei Ying Michelle, Cheng Wing On Alan, Cheung Mau Hung and Wong Chun Chau on 20 October 2009. Each of the Subscribers has agreed to subscribe for 40,000,000 Warrants at HK$0.0025 per unit of Warrants, each entitles the holder thereof to subscribe for one new ordinary shares of the Company at the subscription price of HK$0.5 at any time during the a period of twelve months commencing from the date of issue of the Warrants. As at 31 December 2009, no Warrants have been exercised by the Warrants holders. Taking into account, among other fees, legal fees, printing expenses and the fees for the application of listing of the New Shares, the net warrant issue price is approximately HK$0.002 per Warrant. It is intended that the net proceeds from the Warrants subscription of approximately HK$400,000 will be applied as general working capital of the Group. The Group considers that the issuance of Warrants represents an opportunity to raise additional funds for the Company while broadening the shareholders and capital base of the Company. It is intended that the net proceeds from the exercise of Warrants will be approximately HK$100 million, of which approximately HK$69 million will be applied as capital expenditure for its coal energy business, approximately HK$22 million will be applied for repayment of the Group's borrowings and the remaining balance of approximately HK$9 million will be applied as general working capital of the Group.

The Group considers that it is beneficial to the Company and the shareholders as a whole to raise capital for the future business development of the Group by way of the placing new shares as it will broaden the capital and shareholder base of the Company thereby increasing the liquidity of the Shares.

The Group entered into 3 top-up placing agreements in respect of the top-up placing with a placing agent during the Year. The details are set out as below:

Pursuant to the Company's announcement dated 22 October 2009, the Company entered into the first top-up placing agreement with a placing agent to place 100,000,000 new ordinary shares of the Company at placing price of HK$0.281 per share to not less than six places, which are independent investors on 22 October 2009. The net subscription price (after deducted the placing expenses of approximately HK$1 million) is approximately HK$0.27 per share. The net proceeds of approximately HK$27 million will be used as follow: (i) approximately HK$16 million for repayment of the Group's borrowings; (ii) approximately HK$3 million as capital expenditure for the Group's coal energy business and (iii) approximately HK$8 million as general working capital of the Group.

Pursuant to the Company's announcement dated 9 November 2009, the Company entered into the second top-up placing agreement with a placing agent to place 100,000,000 new ordinary shares of the Company at placing price of HK$0.36 per share to not less than six places, which are independent investors on 9 November 2009. The net subscription price (after deducted the placing expenses of approximately HK$1 million) is approximately HK$0.35 per share. The net proceeds of approximately HK$35 million will be used as follow: (i) approximately HK$24 million for repayment of the Group's borrowings; (ii) approximately HK$7 million as capital expenditure for the Group's coal energy business and (iii) approximately HK$4 million as general working capital of the Group.

Pursuant to the Company's announcement dated 11 December 2009, the Company entered into the third top-up placing agreement with a placing agent to place 100,000,000 new ordinary shares of the Company at placing price of HK$0.415 per share to not less than six places, which are independent investors on 11 December 2009. The net subscription price (after deducted the placing expenses of approximately HK$1.1 million) is approximately HK$0.404 per share. The net proceeds of approximately HK$40.4 million will be used as follow: (i) approximately HK$6 million for repayment of the Group's borrowings and (ii) approximately HK$34.4 million as capital expenditure for the Group's coal energy business and as general working capital of the Group.

Alteration of terms of convertible notes and issue of new convertible notes

On 28 March 2008, the convertible notes of nominal value of approximately HK$254,100,000 ("CN1") were issued as part of the consideration for an acquisition of the entire equity interest of Lucky Dragon Resources Limited and its subsidiaries. Pursuant to the terms of CN1, CN1 are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of CN1 and 28 March 2010. Any CN1 not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

On 2 October 2009, the Company and CN1 holders entered into a deed to alter certain terms of CN1 ("Altered CN1") such that:

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

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

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

(iv) any remaining CN1 not converted by maturity date will be redeemed at 100% of its outstanding principal amount. The management has designated the entire Altered CN1 as financial liabilities at fair value through profit or loss.

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

The details of the alteration of terms of convertible notes and issue of new convertible notes are set out in the company's announcement and circular dated 5 October 2009 and 20 October 2009, respectively,

In addition, the details of the financial impact of the alteration of terms of convertible notes and issue of new convertible notes are set out in note 27 to the Group's consolidated financial statements.

Employment, Training and Development

As at 31 December 2009, the Group had a total of 735 employees (2008: 837 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

Correction of prior period errors

The details of correction of prior period errors are set out in note 3 to the consolidated financial statements.

Profile of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Hui Kee Fung, aged 49, is the has been appointed as executive Director and Chairman of the Company since November 2000. He has over 20 years of experience in various industries. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management Association, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the PRC, an Executive Director of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Deputy Managing Director of The Fujian Putian University in the PRC, and an Honorary Citizen of Putian, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. Yu Won Kong, **Dennis**, aged 60, has been appointed as executive Director since October 2009. He is also the Chief Executive Officer of the Company and has over 20 years of experience in financial investment field. From 2003 to 2006, Mr. Yu was a director of Fortuna International Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (the "Exchange"). During the period from 1995 to 2003, he acted as executive director respectively in several listed companies in Australia, Frankfurt and NASDAQ and was responsible for identifying acquisition targets, raising fund, and monitoring those companies' direct investment activities in the PRC. Mr. Yu is also the chairman and executive director of Thinsoft (Holdings) Inc., a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM").

Mr. Guo Tianjue, aged 70, has been appointed as executive Director since October 2009. He graduated from Wuhan University with a bachelor's degree in science. From 1963 to 1975, Mr. Guo held the position of engineer of Nuclear Power Institute of China. From 1975 to 1983, Mr. Guo was the chief engineer and held many other managerial positions of Department of Nuclear Power, Ministry of Nuclear Industry. From 1983 to 1986, Mr. Guo was the chief secretary and held many other managerial positions of Guangdong Nuclear Power Construction Command Office and Guangdong Nuclear Power Joint Venture Co. Ltd. Mr. Guo was awarded an Honor Certificate from government of the PRC in October 1985 for his long-standing contribution to the nuclear industry. Since 1990, Mr. Guo served as director or senior consultant of a number of financial institutions, securities and investment firms in the mainland China and Hong Kong. Mr. Guo has accumulated over 30 years of experience in economics, finance, securities and enterprise management. Currently, Mr. Guo is also the board member of China Mergers & Acquisitions Association of All-China Federation of Industry & Commerce and the honorary president of China Universities Alumni (Hong Kong) Association.

Mr. Lam Kit Sun, aged 32, has been appointed as executive Director since October 2009. He has over 10 years of experience in the field of financial reporting, financial management and audit experience in Greater China area and Hong Kong. Mr. Lam has worked in an international accountancy firm in Hong Kong for over 4 years and has been the company secretary and qualified accountant of China Leason Investment Group Co. Limited, a company listed on GEM. Mr. Lam is a practicing member of the Hong Kong Institute of Certificate Public Accountants. Mr. Lam is also the non-executive director of Thinsoft (Holdings) Inc., a company listed on the GEM.

Profile of Directors and Senior Management

Independent Non-Executive Directors

Mr. Lam Siu Lun, **Simon**, aged 60, has been appointed as independent non-executive Director since October 2009. He graduated from the University of Hong Kong in 1973. After graduation, he worked at KPMG London and Hong Kong and obtained his qualification as a Chartered Accountant and Certified Public Accountant from the Institute of Chartered Accountants in England and Wales and Hong Kong Institute of Certified Public Accountants respectively. Mr. Lam has been a practicing accountant for over 19 years and is the proprietor of Messrs. S. L. Lam & Company. He has served as a member of the Insider Dealing Tribunal on a number of occasions. He is an independent non-executive Director and audit committee member of Lifestyle International Holdings Limited, and Le Saunda Holdings Ltd, companies whose securities are listed on the Stock Exchange.

Mr. Zhang Xianmin, aged 56, has been appointed as independent non-executive Director since October 2009. He graduated from China Central Radio and Television University with a degree in administration. Mr. Zhang currently holds the following positions: Chairman of China Economic & Culture Fund in Hong Kong, Chairman of magazine "Coastline", Part-time Professor of Xiamen University, Part-time Professor of Zhongnan University of Economics and Law, Chief Coordinator of Aid-the-Poor & Aid-the-Students Programme of Hong Kong Society for the Promotion of Virtue, Deputy Secretary-General of China Economics Award Administration Committee, Director of Hong Kong Branch, China Council for the Promotion of Peaceful National Reunification. In addition, he once served as deputy chairman of Shenzhen Association of Enterprises with Foreign Investment.

Mr. Mohammed Ibrahim Munshi, aged 50, has been appointed as independent non-executive Director since October 2009. He graduated from Portsmouth Polytechnic in 1986 with a bachelor's degree in Geology and obtained a Master of Business Administration from the University of Central Queensland in 1996. Mr. Munshi is a geologist with an extensive mining engineering background of over 20 years experience, in exploration, development, production and both technical and corporate management in the gold and coal mining industry. Mr. Munshi is currently the chairman and managing director of Prosperity Resources Limited, a Western Australian based gold-copper explorer listed on the Australian Securities Exchange. He is also the non-executive chairman of Paramount Mining Corporation Limited, a company listed on the Australian Stock Exchange with a strategic focus on coal and infrastructure projects in Indonesia. Mr. Munshi has a broad exposure to large multi-national corporations and junior mining and entrepreneurial companies, having working previously for Ivanhoes Mines Limited, ACM Limited, Posgold/Normandy Mining, Great Central Mines NL, Ashanti Goldfields Limited and JCI Limited and was involved in project evaluation, financing, legal and administrative functions in these companies. Over the last six years, Mr. Munshi has been involved in a number of significant capital raising for exploration and mining projects in Asia, South America and Europe. He has worked extensively in coal projects and the related infrastructure in Asia, particularly in the People's Republic of China and Mongolia.

Mr. Peng Guanghui, aged 46, has been appointed as independent non-executive Director since September 2004 and resigned on 11 January 2010. He is a Partner and the Chief Accountant of Xiamen Yong He Certified Public Accountants Co., Ltd. in the PRC. Mr. Peng graduated from the Fujian Financial Institution of the PRC and has over 20 years of experience in the fields of auditing, accounting and finance. Mr. Peng is also a Certified Public Accountant in the PRC and a member of The Chinese Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Cheung Kai Fung, aged 35, is the Chief Financial Officer and Company Secretary of the Company. Mr. Cheung holds a bachelor in business administration degree in information and systems management from The Hong Kong University of Science and Technology. Mr. Cheung is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was the group financial controller, qualified accountant and joint company secretary of China Sunshine Paper Holdings Company Limited, a company listed on the main board of the Stock Exchange, prior to joining the Company. Mr. Cheung has over 10 years of finance, investor relations and audit experience.

Mr. Yang Runzhi, aged 55, is the Managing Director of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tonghao City Heng Yuan Mining Company Limited, the wholly owned subsidiarer of the Company activities. He has 25 years of experience in military and government and over 10 years of experience in the coal industry in Inner Mongolia. He is a Senior Economist for coal industry and has worked as the General Manager of Beijing Zhongmei Hengrun Co., Ltd. (北京中煤恒潤有公司, a subsidiary of the China Coal Group). He has in-depth knowledge in the sales and marketing of coals, processing of coal products and purchasing of coal mine machinery and equipment.

Mr. Hui Ki Yau, aged 48, is the general manager of the Group's toy and gift business. He is responsible for the operations and the sales and marketing functions of the Group. Mr. Hui has over 15 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 41, is the operation manager of the Group's toys and gifts business. Madam Hui has over 16 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

Report of the Directors

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 21 to the consolidated financial statements.

Segment Information

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2009 is set out in note 7 to the consolidated financial statements.

Results and Dividends

The Group's result for the year ended 31 December 2009 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 34 to 38.

The directors do not recommend the payment of any final dividend in respect of the year.

Property, Plant and Equipment and Investment Property

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 13 and 15 to the consolidated financial statements, respectively. Details of the Group's investment property is set out in note 15 to the consolidated financial statement.

Borrowings

Details of the borrowings of the Group as at 31 December 2009 are set out in note 26 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year and subsequent thereto, are set out in notes 31 and 33 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2009, the Company had distributable reserves of approximately HK$242.9 million (2008: HK$205.9 million). Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the contributed surplus and share premium of the Company of HK$125.2 million (2008: HK$125.2 million) and HK$560.5 million (2008: HK$462.1 million), respectively, at 31 December 2009 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Charitable Contributions

During the year, the Group made charitable contributions totaling approximately HK$2,000 (2008: HK$213,000).

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 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 approximately HK$2,949,000 (2008: approximately HK$1,328,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2008: Nil) was available at 31 December 2009 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 2009 in respect of the retirement of its employees.

Report of the Directors

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 62.5% of the total sales for the year and sales to the largest customer included therein accounted for approximately 32.5%. Purchases from the Group's five largest suppliers accounted for approximately 27.6% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 7.9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Hui Kee Fung *(Chairman)*	
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*	(appointed on 22 October 2009)
Mr. Guo Tianjue	(appointed on 22 October 2009)
Mr. Lam Kit Sun	(appointed on 27 October 2009)
Mr. Hui Ki Yau	(resigned on 22 October 2009)
Ms. Hui Hung Tan, Teresa	(resigned on 22 October 2009)

Independent non-executive directors:

Mr. Lam Siu Lun, Simon	(appointed on 22 October 2009)
Mr. Zhang Xianmin	(appointed on 22 October 2009)
Mr. Mohammed Ibrahim Munshi	(appointed on 27 October 2009)
Mr. Peng Guanghui	(resigned on 11 January 2010)
Mr. Kung King Ching, Conrad	(resigned on 22 October 2009)
Mr. Tang Rongzu	(resigned on 22 October 2009)

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

In accordance with article 87 of the Company's articles of association, Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Guo Tianjue, Mr. Lam Kit Sun, Mr. Lam Siu Lun, Simon, Mr. Zhang Xianmin and Mr. Mohammed Ibrahim Munshi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Profile of Directors and Senior Management

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 13 to 15 of the annual report.

Directors' Service Contracts

Mr. Hui Kee Fung ("Mr. Hui") has entered into a service contract with the Company for an initial term of three years commencing on 1 July 2009 ("Services Period"), which may be terminated by either party thereto by giving to the other three months' prior notice in writing. During the Services Period, if the Company terminates the service contract by giving termination notice, the Company shall pay Mr. Hui in cash (i) all outstanding salary and amount payable to Mr. Hui; and (ii) an amount equivalent to the Salary for the remaining period of the service period but in any case such amount shall not exceed one year's remuneration in full.

Mr. Yu Won Kong, Dennis and Mr. Guo Tianjue have entered into a service contract with the Company for an initial term of two years commencing on 22 October 2010, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Lam Kit Sun has entered into a service contract with the Company for an initial term of two years commencing on 27 October 2010, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Term of non-executive Directors

The non-executive Directors are appointed for a fixed term of 2 years.

Directors' Interests in Contracts

Save for transactions as disclosed to notes 28 and 38 to the consolidated financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Directors' Interests in Shares

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Number or attributable number of Shares held or short positions	Interest of controlled corporation	Capacity Interest of child under 18 or spouse	Beneficial owner	Approximate percentage or attributable percentage of shareholdings (%)
Yu Won Kong, Dennis *(Note 1)*	1,637,421,872 (L)	1,157,921,872 (L)	14,500,000 (L)	465,000,000 (L)	36.98%
Hui Kee Fung *(Note 2)*	767,500,000 (L)	767,500,000 (L)	–	–	17.34%
Lam Siu Lun, Simon	6,000,000 (L)	–	–	6,000,000 (L)	0.14%
Zhang Xianmin	6,000,000 (L)	–	–	6,000,000 (L)	0.14%
Mohammed Ibrahim Munshi	6,000,000 (L)	–	–	6,000,000 (L)	0.14%

L: Long positions

Notes:

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

2. *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 and Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.*

Save as disclosed above, none of the Directors nor their associates had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations as at the Latest Practicable Date.

Save as disclosed above, as at the 31 December 2009, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

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 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.

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

Grantee	Outstanding at 1 January 2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2009	Exercise price
	Number of share options					
Independent non-executive Directors	–	9,000,000	–	–	9,000,000	HK$0.4000
	–	9,000,000	–	–	9,000,000	HK$0.6000
Employees	61,439,600	–	(10,347,000)	(274,000)	50,818,600	HK$0.1016
	3,300,000	–	–	–	3,300,000	HK$0.7400
	–	3,000,000	–	–	3,000,000	HK$0.6000
	–	6,000,000	–	–	6,000,000	HK$0.4240
	64,739,600	27,000,000	(10,347,000)	(274,000)	81,118,600	
Consultant	1,200,000	–	(1,200,000)	–	–	HK$0.1016
	65,939,600	27,000,000	(11,547,000)	(274,000)	81,118,600	

Further details of the exercisable periods of the share options are disclosed in note 33 to the consolidated financial statements..

Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2009, 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:

		Capacity		
Name of Shareholders	**Number of Shares or underlying Approximate shares shareholding**	**Beneficial owner**	**Interest of controlled corporation**	**Interest of child under 18 or spouse**
Ho Siu Lan, Sandy *(Note 1)*	1,637,421,872 36.98%	(L) 14,500,000	–	(L) 1,622,921,872
Chung Chi Shing *(Note 2)*	1,334,581,872 30.14%	(L) 176,660,000	(L) 1,157,921,872	–
Kau Man Wai, Leslie *(Note 3)*	1,269,791,872 28.68%	(L) 111,870,000	(L) 1,157,921,872	–
Gold Dynasty Investments Limited *(Note 2)*	1,157,921,872 26.15%	(L) 1,157,921,872	–	–
Top Advance Group Limited *(Notes 2 & 3)*	1,157,921,872 26.15%	–	(L) 1,157,921,872	–
Legend Win Profits Limited *(Note 4)*	767,500,000 17.34%	(L) 767,500,000	–	–
Ruan Yuan	530,000,000 11.97%	(L) 530,000,000	–	–

L: Long Position

Notes:

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

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

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

4. *The Shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung and Hui's K. K. Foundation Limited as to 38.95%, and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung is the registered members and directors of Hui's K. K. Foundation Limited.*

Connected Transaction

Alteration of terms of convertible notes and issue of new convertible notes

On 28 March 2008, the convertible notes of nominal value of approximately HK$254,100,000 ("CN1") were issued as part of the consideration for an acquisition of the entire equity interest of Lucky Dragon Resources Limited and its subsidiaries. Pursuant to the terms of CN1, CN1 are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of CN1 and 28 March 2010. Any CN1 not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

On 2 October 2009 (the "Transaction Date"), the Company and CN1 holders entered into a deed to alter certain terms of CN1 ("Altered CN1") such that:

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

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

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

(iv) any remaining CN1 not converted by maturity date will be redeemed at 100% of its outstanding principle amount. The management has designated the entire Altered CN1 as financial liabilities at fair value through profit or loss.

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

On the Transaction Date, the holder of CN1 and CN2 is Gold Dynasty Investments Limited. The entire issued share capital of Gold Dynasty Investments Limited ("Gold Dynasty") is beneficially owned as to (i) 55% by Uniview Holdings Limited, the entire issued share capital of which is beneficially owned by Mr. Chung Chi Shing; and (ii) 45% by Top Advance Group Limited. The entire issued share capital of Top Advance Group Limited is beneficially owned as to (i) 50% by Strong Choice Investments (Holdings) Ltd., the entire issued share capital of which is beneficially owned by Yu Won Kong, Dennis, an executive director of the Company; and (ii) 50% by Kau Man Wai, Leslie.

In addition, the Gold Dynasty and its shareholders hold an aggregate of 918,030,000 Shares, representing approximately 22.31% of the entire issued share capital of the Company on the Transaction Date. Pursuant to Chapter 14A of the Listing Rules, the Gold Dynasty and its shareholders are substantial shareholders and connected person of the Company.

The details of the alteration of terms of convertible notes and issue of new convertible notes are set out in the Company's announcement and circular dated 5 October 2009 and 20 October 2009, respectively,

Continuing Connected Transactions

(1) The Toland Transactions

On 21 October 2009, Toland International Limited ("Toland"), a 70% indirect non-wholly owned subsidiary of the Company and associate of Mr. Bruce Warren Solly, ("Mr. Solly") and Kiu Hung Industries Limited ("KH Industries"), an indirect wholly owned subsidiary of the Company, entered into an agreement ("Toland Agreement"). Mr. Solly, a director of Toland and Marketing Resource Group Inc. ("Marketing Resource"), is interested in 30% and 50% of the issued share capital of Toland and Marketing Resource respectively and a connected person of the Company. Pursuant to the Toland Agreement, Toland shall make purchases of flags, home accessories, garden products and home decorative gifts from KH Industries for three years from 1 January 2009 to 31 December 2011. The annual cap for the purchases was HK$15 million during each of three years ending 31 December 2011.

During the year, the amount of transactions made between Toland and KH Industries in respect of purchases amounted to approximately HK$6,446,000, and which were within the relevant annual cap approved by the shareholders of the Company.

(2) The Administration transactions

On 21 October 2009, Toland and KH Industries entered into an agreement (the "Administration Agreement"). Pursuant to the Administration Agreement, KH Industries agreed with Toland for the provision a showroom with an area of approximately 100 square metres and the administrative services by KH Industries to Toland for a term of three years from 1 January 2009 to 31 December 2011. Administrative services provided by KH Industries include the handling of sale and purchase orders, bookkeeping and accounting service and handling of other miscellaneons administrative works. The total amount payable by Toland to KH Industries is US$72,000 (equivalently to approximately HK$554,000) for the each of the three years ending 31 December 2011.

During the year, the amount of transactions made between Toland and KH Industries in respect of services amounted to approximately HK$554,000, and which were within the relevant annual cap approved by the shareholders of the Company.

(3) The Marketing Resource transactions

On 21 October 2009, Toland and Marketing Resource, a 50%-owned jointly-controlled entity of the Company and an associate of Mr. Solly who is a connected person of the Company, entered into an agreement (the "Marketing Resources Agreement"). Pursuant to the Marketing Resource Agreement, Marketing Resource agreed with Toland to acquire flags, home accessories, garden products and home decorative gifts from Toland for three years from 1 January 2009 to 31 December 2011. The annual cap for the purchases was HK$15 million during each of three years ending 31 December 2011.

During the year, the amount of transactions made between Toland and Marketing Resource in respect of purchases amounted to approximately HK$5,435,000, and which were within the relevant annual cap approved by the shareholders of the Company.

(4) The Service transactions

On 21 October 2009, Miracles For Fun USA Inc. ("Miracles USA"), a US company which is beneficially owned by Mr. Gregg Sanders who is a connected person of the Company, and Better Sourcing Worldwide Limited ("Better Sourcing"), an indirectly non-wholly owned subsidiary of the Company, entered into an agreement (the "Service Agreement"). Mr. Gregg Sanders, a director of Better Sourcing, is interested in 44% of the issued share capital of Better Sourcing and a connected person of the Company. Pursuant to the Service Agreement, Miracles USA agreed with Better Sourcing to perform marketing and promotion and research and development of toys and gift products for three years from 1 January 2009 to 31 December 2011. The annual cap for the services was approximately HK$1.9 million during each of three years ending 31 December 2011.

During the year, the amount of transactions made between Miracles USA and Better Sourcing in respect of services amounted to approximately HK$1,184,000, and which were within the relevant annual cap approved by the shareholders of the Company.

(5) The Better Sourcing transactions

On 21 October 2009, KH Industries and Better Sourcing entered into an agreement (the "Better Sourcing Agreement"). Pursuant to the Better Sourcing Agreement, Better Sourcing agreed with KH Industries to acquire toys and gifts products for three years from 1 January 2009 to 31 December 2011. The annual cap for the purchases was HK$15 million during each of three years ending 31 December 2011.

During the year, the amount of transactions made between KH Industries and Better Sourcing in respect of purchases amounted to approximately HK$5,298,000, and which were within the relevant annual cap approved by the shareholders of the Company.

The entering of the Toland Agreement, Administration Agreement, Marketing Resource Agreement, Service Agreement and Better Sourcing Agreement constituted a continuing connected transaction of the Company. The annual caps did not fall under the exemption in Rules 14A.33 and 14A.34 of the Main Board Listing Rules and was subject to the reporting, announcement and independent shareholders' approval requirements under the Rules 14A.45 to 14A.54 of the Main Board Listing Rules. This transaction was approved by the independent shareholders of the Company on 21 December 2009.

For details, please refer to the Company's announcement dated 2 November 2009 and the Company's circular dated 23 November 2009.

The Company has received a letter from the auditor reporting that, based on the information and documents made available to them, the Toland Agreement, Administration Agreement, Marketing Resource Agreement, Service Agreement and Better Sourcing Agreement entered into by the Group were:

i) Approved by the Board of Directors of the Company on 21 October 2009;

ii) In accordance with the pricing policies of the Group; and

iii) The transactions have been entered into in accordance with the relevant agreements governing such transactions, except that Marketing Resource settled the trade amount with Toland later than the credit period of 45 days.

Directors' Interests in Competing Business

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

Sufficiency of Public Float

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

Corporate Governance

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 28 to 31.

Independent Confirmation

The Company has received, form each independent non-executive director, an annual confirmation of independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all the independent non-executive directors are independent.

Events after the reporting period

Details of the events after the reporting period was set out in note 39 to the consolidated financial statements.

Auditor

RSM Nelson Wheeler was appointed as auditor of the Company on 6 February 2009 to fill in the casual vacancy arising from the resignation of Grant Thornton. There have been no other change of auditor in the last three years.

RSM Nelson Wheeler will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yu Wong Kong, Dennis
Chief Executive Officer

Hong Kong
29 April 2010

Corporate Governance Report

Introduction

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2009, the Company has substantially complied with the provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2009.

Board of Directors

During year 2009, the Board went through resignations and appointments of Executive Directors and Independent Non-Executive Directors. The Board currently comprises four executive directors and four independent non-executive directors. For a Director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the executive directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

As at the date of this report, the Company appointed three independent non-executive Directors, namely, Mr. Lam Siu Lun, Simon ("Mr. Lam"), Mr. Zhang Xianmin ("Mr. Zhang") and Mr. Mohammed Ibrahim Munshi ("Mr. Munshi") who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders.

Mr. Lam and Mr. Zhang were appointed for a term of two years commencing from 22 October 2009, while Mr. Munshi was appointed for a term of two years commencing from 27 October 2009.

The Company arranged appropriate insurance cover in respect of legal actions against directors.

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Twelve Board meetings were held in 2009. Due to the change of the Board of Directors which happened on 22 October 2009 and 27 October 2009, the attendance list is divided into 2 parts which include the attendance of previous and current Board of Directors respectively. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2009 is set out below:

	Attendance/Number of Meetings			
Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Since 22 October 2009 (Total 1 meetings)				
Executive Director				
Mr. Hui Kee Fung *(Chairman)*	1/1	N/A	N/A	1/1
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)* (appointed on 22 October 2009)	1/1	N/A	N/A	N/A
Mr. Guo Tianjue (appointed on 22 October 2009)	1/1	N/A	N/A	N/A
Mr. Lam Kit Sun (appointed on 27 October 2009)	1/1	N/A	N/A	N/A
Independent Non-Executive Director				
Mr. Lam Siu Lun, Simon (appointed on 22 October 2009)	1/1	N/A	N/A	1/1
Mr. Zhang Xianmin (appointed on 22 October 2009)	0/1	N/A	N/A	1/1
Mr. Mohammed Ibrahim Munshi (appointed on 27 October 2009)	1/1	N/A	N/A	1/1
Mr. Peng Guanghui (resigned on 11 January 2010)	1/1	N/A	N/A	1/1
Before 22 October 2009 (Total 11 meetings)				
Executive Director				
Mr. Hui Kee Fung *(Chairman)*	11/11	N/A	1/1	1/1
Mr. Hui Ki Yau *(Chief Executive Officer)* (resigned on 22 October 2009)	9/11	N/A	N/A	N/A
Ms. Hui Hung Tan, Teresa (resigned on 22 October 2009)	11/11	N/A	N/A	N/A
Independent Non-Executive Director				
Mr. Peng Guanghui (resigned on 11 January 2010)	8/11	3/3	1/1	1/1
Mr. Kung King Ching, Conrad (resigned on 22 October 2009)	8/11	3/3	1/1	1/1
Mr. Tang Rong Zu (resigned on 22 October 2009)	8/11	3/3	1/1	1/1

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meets regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 13 to 15.

Corporate Governance Report

Chairman and Chief Executive Officer

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Yu Won Kong, Dennis as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on pages 13 to 15.

Remuneration Committee

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the Company upon request.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2009. Four out of Five of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2009 include:

Mr. Lam Siu Lun, Simon – *Chairman*
Mr. Zhang Xianmin
Mr. Mohammed Ibrahim Munshi
Mr. Peng Guanghui (resigned on 11 January 2010)
Mr. Hui Kee Fung

Directors' remunerations for the year are disclosed in note 12 to the consolidated financial statements.

Nomination Committee

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request.

One meeting was held by the Nomination Committee in 2009. Four out of Five of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2009 include:

Mr. Zhang Xianmin – *Chairman*
Mr. Lam Siu Lun, Simon
Mr. Mohammed Ibrahim Munshi
Mr. Peng Guanghui (resigned on 11 January 2010)
Mr. Hui Kee Fung

Audit Committee

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2009. All committee members are independent non-executive directors. Its members as at 31 December 2009 include:

Mr. Lam Siu Lun, Simon – *Chairman*
Mr. Zhang Xianmin
Mr. Mohammed Ibrahim Munshi
Mr. Peng Guanghui (resigned on 11 January 2010)

The Committee members possess diversified industry experience and the Chairman of the Committee has appropriate professional qualifications and experience in accounting matters. During the year, the Committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's internal control system.

Internal Controls

The Group's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the directors has conducted a review of its effectiveness during the year.

Auditors' Remuneration

During the year, the Group has incurred auditors' remuneration of HK$1 million (2008: HK$750,000) all of which was paid/payable to the Company's auditors, Messrs RSM Nelson Wheeler. In addition, professional fee of HK$148,000 (2008: HK$68,000) was payable by the Group for the taxation and other services rendered by RSM Nelson Wheeler.

Financial Reporting

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 32 to 33.

Independent Auditor's Report

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
KIU HUNG ENERGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Kiu Hung Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 109, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

(a) The directors of the Company make retrospective restatements ("Restatements") in relation to the Group's acquisitions of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited in 2007 and 2008 respectively. The details of the Restatements are set out in note 3 to the consolidated financial statements. According to the Restatements, at 1 January 2009, the carrying amount of goodwill was decreased by approximately HK$658,405,000, the carrying amount of exploration and evaluation assets was increased by approximately HK$658,405,000, the carrying amount of deferred tax liabilities was increased by approximately HK$164,601,000, the carrying amount of foreign currency translation reserve was increased by approximately HK$42,859,000 and the carrying amount of accumulated losses was increased by approximately HK$207,460,000. We were not provided with sufficient evidence to satisfy ourselves as to the then fair value of the exploration and evaluation assets as at the dates of acquisitions of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited in 2007 and 2008 respectively. Accordingly, we are unable to satisfy ourselves as to the appropriateness of the Restatements.

Basis for disclaimer of opinion (continued)

In view of the above, we are unable to satisfy ourselves as to the carrying amounts of the following figures stated in the consolidated statement of financial position as at 31 December 2009:

– goodwill of HK$Nil;
– exploration and evaluation assets of approximately HK$711,889,000;
– deferred tax liabilities of approximately HK$168,301,000;
– foreign currency translation reserve of approximately HK$53,273,000; and
– accumulated losses of approximately HK$388,228,000.

As a result of the Restatements, the correspondence figures for the year ended 31 December 2008 were restated. We are unable to satisfy ourselves whether the following restated figures stated in the consolidated statement of financial position as at 31 December 2008 were fairly stated:

– goodwill of HK$Nil;
– exploration and evaluation assets of approximately HK$711,889,000;
– deferred tax liabilities of approximately HK$168,521,000;
– foreign currency translation reserve of approximately HK$53,130,000; and
– accumulated losses of approximately HK$323,641,000.

In addition, we are unable to satisfy ourselves whether the following restated figures stated in the consolidated income statement for the year ended 31 December 2008 were fairly stated:

– impairment loss on exploration and evaluation assets of approximately HK$473,383,000;
– impairment loss on goodwill of approximately HK$20,266,000; and
– deferred tax credit of approximately HK$151,012,000.

(b) As set out in notes 16 and 17 to the consolidated financial statements, the directors assessed the carrying amount of exploration and evaluation assets of approximately HK$711,889,000 based on the recoverable amounts of Guerbanhada Coal Mine and Bayanhushuo Coal Field which are estimated as the higher amount of fair value less costs to sell and value in use. We have not been provided with sufficient evidence to satisfy ourselves as to the fair value less costs to sell and value in use of the relevant cash generating units. We are unable to satisfy ourselves whether the carrying amount of exploration and evaluation assets of approximately HK$711,889,000 was fairly stated as at 31 December 2009.

There are no other satisfactory audit procedures that we could adopt to determine whether the above figures were fairly stated in the consolidated financial statements. Any adjustments to the above figures might have significant consequential effect on the results for the year ended 31 December 2008 and 2009 and net assets as at 31 December 2008 and 2009.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the states of the affairs of the Company and the Group as at 31 December 2009 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong
29 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000 (Restated)
Turnover	7	**121,556**	133,357
Cost of sales		**(90,905)**	(91,760)
Gross profit		**30,651**	41,597
Other income	7	**93,440**	155,514
Selling and distribution costs		**(15,814)**	(18,000)
Administrative expenses		**(34,432)**	(31,361)
Other operating expenses		**(113,096)**	(532,349)
Loss from operations		**(39,251)**	(384,599)
Finance costs	8	**(23,060)**	(18,705)
Share of (loss)/profit of a jointly-controlled entity	20	**(366)**	449
Loss before tax		**(62,677)**	(402,855)
Income tax (expense)/credit	9	**(1,988)**	150,144
Loss for the year	10	**(64,665)**	(252,711)
Attributable to:			
Equity holders of the Company		**(64,347)**	(253,080)
Minority interests		**(318)**	369
		(64,665)	(252,711)
		HK cents	HK cents
Loss per share	11		
Basic		**(1.55)**	(6.54)
Diluted		**(3.22)**	(9.35)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000 (Restated)
Loss for the year	**(64,665)**	(252,711)
Other comprehensive income:		
Exchange differences on translating foreign operations	**143**	37,774
Surplus/(deficits) on revaluation of properties	**2,615**	(297)
Deferred tax arising on revaluation of properties	**220**	(95)
Less: Reclassification adjustment for exchange difference to profit or loss upon disposal of subsidiaries	**–**	(3,995)
Other comprehensive income for the year, net of tax	**2,978**	33,387
Total comprehensive income for the year	**(61,687)**	(219,324)
Attributable to:		
Equity holders of the Company	**(61,369)**	(219,693)
Minority interests	**(318)**	369
	(61,687)	(219,324)

Consolidated Statement of Financial Position

	Note	**At 31 December 2009 HK$'000**	At 31 December 2008 HK$'000 (Restated)	At 1 January 2008 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	*13*	**66,978**	63,768	57,990
Prepaid land lease payments	*14*	**4,643**	4,742	6,299
Investment properties	*15*	**3,600**	3,440	400
Goodwill	*16*	**–**	–	–
Exploration and evaluation assets	*17*	**711,889**	711,889	343,627
Mining rights	*18*	**–**	–	–
Other intangible assets	*19*	**1,117**	1,129	1,789
Interest in a jointly-controlled entity	*20*	**1,377**	1,743	524
Deposit		**–**	–	3,000
		789,604	786,711	413,629
Current assets				
Inventories	*22*	**6,106**	9,329	9,860
Trade receivables	*23*	**2,804**	5,014	9,108
Prepayments, deposits and other receivables		**3,647**	2,833	9,548
Due from a jointly-controlled entity	*20(a)*	**593**	3,256	3,443
Prepaid land lease payments	*14*	**98**	98	151
Current tax assets		**511**	218	85
Financial assets at fair value through profit or loss	*24*	**286**	286	286
Bank and cash balances		**82,713**	69,019	70,557
		96,758	90,053	103,038
Current liabilities				
Trade and bills payables	*25*	**12,896**	10,165	9,256
Accruals and other payables		**27,304**	21,585	17,864
Current tax liabilities		**789**	398	1,051
Borrowings	*26*	**38,285**	38,884	32,263
Derivative financial instruments	*27*	**–**	1,059	–
Promissory notes	*29*	**–**	95,416	–
		79,274	167,507	60,434
Net current assets/(liabilities)		**17,484**	(77,454)	42,604
Total assets less current liabilities		**807,088**	709,257	456,233
Non-current liabilities				
Borrowings	*26*	**4,609**	18,376	1,284
Deferred tax liabilities	*30*	**168,301**	168,521	104,906
Convertible notes	*27*	**–**	234,128	–
Financial liabilities at fair value through profit or loss	*28*	**302,741**	–	–
		475,651	421,025	106,190
NET ASSETS		**331,437**	288,232	350,043

Consolidated Statement of Financial Position

	Note	At 31 December 2009 HK$'000	At 31 December 2008 HK$'000 (Restated)	At 1 January 2008 HK$'000 (Restated)
Capital and reserves				
Share capital	*31*	**88,546**	82,315	68,132
Reserves	*32*	**241,258**	203,966	280,329
Total equity attributable to equity holders of the Company		**329,804**	286,281	348,461
Minority interests		**1,633**	1,951	1,582
TOTAL EQUITY		**331,437**	288,232	350,043

Approved by the Board of Directors on 29 April 2010

Yu Won Kong, Dennis
Director

Lam Kit Sun
Director

Statement of Financial Position

At 31 December 2009

	Note	**2009** **HK$'000**	2008 HK$'000
Non-current assets			
Investments in subsidiaries	21	**642,791**	651,223
Current assets			
Prepayment, deposits and other receivables		**491**	171
Due from subsidiaries	21	**–**	–
Bank and cash balances		**59,406**	36
		59,897	207
Current liabilities			
Accruals and other payables		**3,474**	3,095
Borrowings	26	**2,000**	29,500
Due to subsidiaries	21	**63,036**	–
Derivative financial instruments	27	**–**	1,059
Promissory notes	29	**–**	95,416
		68,510	129,070
Net current liabilities		**(8,613)**	(128,863)
Total assets less current liabilities		**634,178**	522,360
Non-current liabilities			
Convertible notes	27	**–**	234,128
Financial liabilities at fair value through profit or loss	28	**302,741**	–
		302,741	234,128
NET ASSETS		**331,437**	288,232
Capital and reserves			
Share capital	31	**88,546**	82,315
Reserves	32	**242,891**	205,917
TOTAL EQUITY		**331,437**	288,232

Approved by the Board of Directors on 29 April 2010

Yu Won Kong, Dennis	**Lam Kit Sun**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital HK$'000 *(note 31)*	Share premium HK$'000 *(note (a))*	Statutory reserve HK$'000 *(note (b))*	Contributed surplus HK$'000 *(note (c))*	Foreign currency translation reserve HK$'000 *(note (d))*	Share-based payment reserve HK$'000 *(note (e))*	Property revaluation reserve HK$'000 *(note (f))*	Non-listed warrants reserve HK$'000 *(note (g))*	Retained Profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008, as previously reported	68,132	319,794	1,495	313	5,474	4,264	14,155	–	33,886	447,513	1,582	449,095
Recognition of the exchange difference for the retranslation of the exploration and evaluation assets of GCM at year end rate and its corresponding tax impact as at 1 January 2008 *(note 3(a)(ii))*	–	–	–	–	11,071	–	–	–	–	11,071	–	11,071
Recognition of the impairment loss to the carrying value of the exploration and evaluation assets of GCM and its corresponding deferred tax impact as at 1 January 2008 *(note 3(a)(iii))*	–	–	–	–	2,806	–	–	–	(112,929)	(110,123)	–	(110,123)
At 1 January 2008, as restated	68,132	319,794	1,495	313	19,351	4,264	14,155	–	(79,043)	348,461	1,582	350,043
Total comprehensive income for the year, as restated	–	–	–	–	33,779	–	(392)	–	(253,080)	(219,693)	369	(219,324)
Issue of consideration shares *(note 31(a))*	12,000	115,996	–	–	–	–	–	–	–	127,996	–	127,996
Issue of shares upon exercise of share options *(note 31(b))*	43	331	–	–	–	(154)	–	–	–	220	–	220
Issue of shares on placement *(note 31(c))*	2,140	26,005	–	–	–	–	–	–	–	28,145	–	28,145
Recognition of share-based payment *(note 33)*	–	–	–	–	–	1,152	–	–	–	1,152	–	1,152
Release on disposal of subsidiaries *(note 34(b))*	–	–	–	(10)	–	–	(8,622)	–	8,632	–	–	–
Transfer to reserve	–	–	150	–	–	–	–	–	(150)	–	–	–
At 31 December 2008, as restated	82,315	462,126	1,645	303	53,130	5,262	5,141	–	(323,641)	286,281	1,951	288,232
At 31 December 2008, as previously reported	82,315	462,126	1,645	303	10,271	5,262	5,141	–	(116,181)	450,882	1,951	452,833
Recognition of the exchange difference for the retranslation of the exploration and evaluation assets of GCM at year end rate and its corresponding tax impact as at 31 December 2008 and 1 January 2008 *(note 3(a)(ii))*	–	–	–	–	25,950	–	–	–	–	25,950	–	25,950
Recognition of the impairment loss to the carrying value of the exploration and evaluation assets of GCM and its corresponding deferred tax impact as at 31 December 2008 and 1 January 2008 *(note 3(a)(iii))*	–	–	–	–	2,806	–	–	–	(100,471)	(97,665)	–	(97,665)
Recognition of the change in income tax rate from 33% to 25% during 2008 *(note 3(a)(iv))*	–	–	–	–	–	–	–	–	24,422	24,422	–	24,422
Recognition of the exchange difference for the retranslation of the exploration and evaluation assets of BCF at year end rate and its corresponding tax impact as at 31 December 2008 *(note 3(b)(ii))*	–	–	–	–	13,653	–	–	–	–	13,653	–	13,653
Recognition of the impairment loss to the carrying value of the exploration and evaluation assets of BCF and its corresponding deferred tax impact as at 31 December 2008 *(note (3(b)(iii))*	–	–	–	–	450	–	–	–	(131,411)	(130,961)	–	(130,961)
At 31 December 2008, as restated	82,315	462,126	1,645	303	53,130	5,262	5,141	–	(323,641)	286,281	1,951	288,232
Total comprehensive income for the year	–	–	–	–	143	–	2,835	–	(64,347)	(61,369)	(318)	(61,687)
Issue of shares upon exercise of share options *(note 31(b))*	231	1,763	–	–	–	(821)	–	–	–	1,173	–	1,173
Issue of shares on placement *(note 31(c))*	6,000	96,800	–	–	–	–	–	–	–	102,800	–	102,800
Expenses on issue of convertible notes	–	(182)	–	–	–	–	–	–	–	(182)	–	(182)
Issue of non-listed warrants	–	–	–	–	–	–	–	409	–	409	–	409
Recognition of share-based payment *(note 33)*	–	–	–	–	–	692	–	–	–	692	–	692
Release on forfeiture of share options *(note 33)*	–	–	–	–	–	(20)	–	–	20	–	–	–
Transfer to reserve	–	–	260	–	–	–	–	–	(260)	–	–	–
At 31 December 2009	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(388,228)	329,804	1,633	331,437

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

Notes:

(a) *Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.*

(b) *In accordance with the relevant regulations of the People's Republic of China (the "PRC"), the subsidiaries of the Group registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve. Subject to certain restrictions as set out in the relevant regulations and the articles of association of these PRC subsidiaries, the statutory reserve may be used to offset the accumulated losses, or for capitalisation as paid-up capital of the subsidiaries.*

(c) *The contributed surplus 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 of Hong Kong Limited over the nominal value of Company's shares issued in exchange thereof.*

(d) *The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d)(iii) to the consolidated financial statements.*

(e) *Share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain directors, employees and a consultant of the Group recognised in accordance with the accounting policy adopted for share-based payment reserve in note 4(t) to the consolidated financial statements.*

(f) *The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 4(e) to the consolidated financial statements.*

(g) *On 20 October 2009, the Company and the subscribers entered into the subscription agreements in respect of the placement of 200,000,000 warrants of the Company at an initial conversion price of HK$0.5 per share subject to adjustments. The subscription period is for 1 year from the date of issue of the warrants. The proceeds from issuance of warrants net of issue expense of approximately HK$409,000 were credited to non-listed warrants reserve. The Company had 200,000,000 outstanding warrants not exercised as at 31 December 2009.*

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(62,677)**	(402,855)
Adjustments for:			
Allowance for amount due from a jointly-controlled entity		**1,857**	–
Amortisation of other intangible assets		**12**	660
Amortisation of prepaid land lease payments		**98**	151
Bad debts written off		**3**	847
Depreciation		**6,235**	5,977
Fair value gain on derivative component of convertible notes		**(979)**	(146,040)
Fair value gain on investment properties		**(158)**	(334)
Fair value loss on financial liabilities at fair value through profit or loss		**110,079**	–
Gain on derecognition of convertible notes upon change of terms		**(88,897)**	–
Gain on disposal of subsidiaries	*34(b)*	**–**	(7,018)
Impairment loss on exploration and evaluation assets		**–**	473,383
Impairment loss on goodwill		**–**	20,266
Interest expenses		**23,060**	18,705
Interest income		**(218)**	(540)
Loss on disposals of property, plant and equipment		**–**	87
(Reversal of)/allowance for inventories		**(478)**	3,022
Impairment loss on mining rights		**–**	35,493
Share of loss/(profit) of a jointly-controlled entity		**366**	(449)
Share-based payments expenses		**692**	1,152
Operating (loss)/profit before working capital changes		**(11,005)**	2,507
Decrease/(increase) in inventories		**3,701**	(2,491)
Decrease in trade receivables		**2,207**	3,247
(Increase)/decrease in prepayments, deposits and other receivables		**(814)**	6,833
Decrease in amount due from a jointly-controlled entity		**806**	187
Increase in trade and bills payables		**2,731**	909
(Decrease)/increase in trust receipt loans		**(2,524)**	490
Decrease in amount due to a shareholder		**–**	(71)
Increase in accruals and other payables		**5,719**	1,337
Cash generated from operations		**821**	12,948
Interest paid		**(11,125)**	(7,228)
Income taxes paid		**(1,905)**	(1,640)
Net cash (used in)/generated from operating activities		**(12,209)**	4,080

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of subsidiaries	34(a)	–	(3,393)
Additional capital contribution to a jointly-controlled entity		–	(770)
Interest received		218	540
Proceeds from disposals of subsidiaries	34(b)(i)	–	1,985
Purchases of property, plant and equipment		(6,885)	(2,127)
Repayment from a shareholder of an ex-subsidiary		–	5,681
Repayment to an ex-shareholder of a subsidiary		–	(62,543)
Net cash used in investing activities		(6,667)	(60,627)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank and other loans raised		18,933	43,135
Expenses on issue of convertible notes		(182)	–
Expenses on issue of non-listed warrants		(91)	–
Expenses on placement		(2,800)	(745)
Proceeds from issue of non-listed warrants		500	–
Proceeds from issue of shares on exercise of share options		1,173	220
Proceeds from issue of shares on placement		105,600	28,890
Repayment of bank and other loans		(30,775)	(20,034)
Repayment of promissory notes		(60,000)	–
Net cash generated from financing activities		32,358	51,466
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		13,482	(5,081)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		69,019	70,557
Effect of foreign exchange rate changes		212	3,543
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		82,713	69,019
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
Bank and cash balances		82,713	69,019

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 20/F., Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

(b) Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segment reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 7 to the consolidated financial statements.

3. CORRECTION OF PRIOR PERIOD ERRORS

During the preparation of the Group's consolidated financial statements for the year ended 31 December 2009, the Group has discovered several errors in its consolidated financial statements for the years ended 31 December 2008 and 2007. The errors were related to the accounting treatments of two acquisitions completed by the Company's indirectly wholly owned subsidiaries, Bright Assets Investments Limited ("Bright Assets"), substantially referring to the acquisition of the exploration and evaluation assets of Guerbanhada Coal Mine ("GCM") owned as to 100% by Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng") during 2007, and Growth Gain Investments Limited ("Growth Gain"), substantially referring to the acquisition of the exploration and evaluation assets of Bayanhushuo Coal Field ("BCF") and the mining rights of Huanghaushan Coal Mine ("HCM") owned as to 100% by Tongliao City Heng Yuan Mining Company Limited ("Heng Yuan") during 2008, respectively. A detailed description of the nature of each prior period error is provided in note 3(a) to note 3(b) below. The amounts of the prior period correction for each financial statement line item affected are presented in the tables in note 3(c)(I) to note 3(c)(IV) below.

(a) Errors in relation to the acquisition of the exploration right of GCM (presented as exploration and evaluation assets)

During 2007, Bright Assets acquired the entire equity interest of Mingrunfeng indirectly.

(i) Recognition of the fair value of the exploration and evaluation assets of GCM and its corresponding deferred tax impact at the date of acquisition

In connection with this acquisition, the Group had recognised goodwill of approximately HK$303,590,000 at the date of acquisition in 2007. Since the fair value of Mingrunfeng primarily arose from its exploration and evaluation assets of GCM, the associated economic benefits to be derived from the exploration and evaluation assets of GCM should have been allocated and recognised in the purchase price allocation in accordance with HKFRS 3, "Business Combination" as exploration and evaluation assets. Furthermore, a deferred tax liability in relation to the increase in the fair value of the allocated exploration and evaluation assets should be established at the acquisition date. Accordingly, the Group's exploration and evaluation assets and deferred tax liabilities should be increased by approximately HK$353,735,000 and HK$116,733,000, respectively, with a corresponding decrease in goodwill arising from the acquisition of approximately HK$237,002,000.

(ii) Recognition of the exchange difference for the retranslation of the exploration and evaluation assets of GCM at year end rate and its corresponding deferred tax impact as at 31 December 2008 and 1 January 2008

As stated in note 3(a)(i) above, after recognizing the fair value of the exploration right of GCM as exploration and evaluation assets, the appreciation of exchange rate of Renminbi at year end in retranslating the exploration and evaluation assets at consolidation should be accounted for in the exchange reserve. Furthermore, a deferred tax liability in relation to the increase in the carrying amount of the exploration and evaluation assets should be accounted for. Accordingly, the Group's exploration and evaluation assets should be increased by approximately HK$19,839,000 and HK$16,524,000 as at 31 December 2008 and 1 January 2008 respectively, with a corresponding increase in the Group's deferred tax liability of approximately HK$4,960,000 and HK$5,453,000 and exchange reserve arising from consolidation of approximately HK$14,879,000 and HK$11,071,000 as at 31 December 2008 and 1 January 2008, respectively.

3. CORRECTION OF PRIOR PERIOD ERRORS (continued)

(a) Errors in relation to the acquisition of the exploration right of GCM (presented as exploration and evaluation assets) (continued)

(iii) Recognition of the impairment loss to the carrying value of the exploration and evaluation assets of GCM and its corresponding deferred tax impact as at 31 December 2008 and 1 January 2008

The carrying amounts of goodwill arising from the acquisition of Mingrunfeng and exploration and evaluation assets of Mingrunfeng are allocated to exploration and mining CGU and are assessed based on the recoverable amount of the exploration rights of GCM. As a result of the increase in the fair value of the allocated exploration and evaluation assets as stated in note 3(a)(i) above, impairment loss to the carrying value of the exploration and evaluation assets of GCM as at 31 December 2008 and 1 January 2008 previously allocated in goodwill become excessive and should be recognised in exploration and evaluation assets. Furthermore, a corresponding decrease in deferred tax liability in relation to the impairment loss to the exploration and evaluation assets of GCM recognised should be accounted for. Accordingly, impairment loss of approximately HK$21,529,000, representing the net effect of the decrease in the Group's exploration and evaluation assets of approximately HK$135,950,000 and the increase in the Group's goodwill of approximately HK$114,421,000 as at 31 December 2008, should be charged to the Group's consolidated income statement as other operating expenses for the year ended 31 December 2008. The corresponding decrease in the Group's deferred tax liability of approximately HK$33,987,000 should result a tax credit to the Group's consolidated income statement for the year ended 31 December 2008. Decrease in exploration and evaluation assets of approximately HK$200,928,000 as at 31 December 2008, represented its impairment of approximately HK$135,950,000 and HK$64,978,000 as at 31 December 2008 and as at 1 January 2008, respectively. The decrease in exploration and evaluation assets lead to the corresponding decrease in deferred tax liability of approximately HK$55,430,000 and HK$21,443,000 as at 31 December 2008 and as at 1 January 2008, respectively. Increase in goodwill of approximately HK$47,833,000 as at 31 December 2008, represented a net effect of its impairment of approximately HK$66,588,000 as at 1 January 2008 and write back of its impairment of approximately HK$114,421,000 as at 31 December 2008.

(iv) Recognition of the change in effective income tax rate from 33% to 25% during 2008

The deferred tax impact as at 1 January 2008 as stated in notes 3(a)(i) and 3(a)(iii) above was accounted for by 33%, being the effective income tax rate of Mingrunfeng during 2007. With effective from 1 January 2008 onwards, the effective income tax rate decreased to 25%. Accordingly, the Group's deferred tax liability should be decreased by approximately HK$24,422,000.

3. CORRECTION OF PRIOR PERIOD ERRORS (continued)

(b) Errors in relation to the acquisition of the exploration right of BCF (presented as exploration and evaluation assets)

During 2008, Growth Gain acquired the entire equity interest of Heng Yuan indirectly.

(i) Recognition of the fair value of the exploration and evaluation assets of BCF and its corresponding deferred tax impact at the date of acquisition

In connection with this acquisition, the Group had recognised goodwill of approximately HK$611,164,000 at the date of acquisition in 2008. Since the fair value of Heng Yuan primarily arose from its exploration and evaluation assets of BCF, the associated economic benefits to be derived from the exploration rights of BCF should have been allocated and recognised in the purchase price allocation in accordance with HKFRS 3, "Business Combination" as exploration and evaluation assets. Furthermore, a deferred tax liability in relation to the increase in the fair value of the allocated exploration and evaluation assets should be established at the acquisition date. Accordingly, the Group's exploration and evaluation assets and deferred tax liabilities should be increased by approximately HK$788,465,000 and HK$197,116,000, respectively, with a corresponding decrease in goodwill arising from the acquisition of approximately HK$591,349,000.

(ii) Recognition of the exchange difference for the retranslation of the exploration and evaluation assets of BCF at year end rate and its corresponding deferred tax impact as at 31 December 2008

As stated in note 3(b)(i) above, after recognizing the fair value of the exploration right of BCF as exploration and evaluation assets, the appreciation of exchange rate of Renminbi at year end in retranslating the exploration and evaluation assets at consolidation should be accounted for in the exchange reserve. Furthermore, a deferred tax liability in relation to the increase in the carrying amount of the exploration and evaluation assets should be accounted for. Accordingly, the Group's exploration and evaluation assets should be increased by approximately HK$18,204,000, with a corresponding increase in the Group's deferred tax liability and exchange reserve arising from consolidation of approximately HK$4,551,000 and HK$13,653,000, respectively.

(iii) Recognition of the impairment loss to the carrying value of the exploration and evaluation assets of BCF and its corresponding deferred tax impact as at 31 December 2008

The carrying amounts of goodwill arising from the acquisition of Heng Yuan and exploration and evaluation assets of Heng Yuan are allocated to exploration and mining CGU and are assessed based on the recoverable amount of the exploration rights of BCF. As a result of the increase in the fair value of the allocated exploration and evaluation assets as stated in note 3(b)(i) above, impairment loss to the carrying value of the exploration right of BCF as at 31 December 2008 previously allocated in goodwill become excessive and should be recognised in exploration and evaluation assets. Furthermore, a corresponding decrease in deferred tax liability in relation to the impairment loss to the exploration and evaluation assets of BCF recognised should be accounted for. Accordingly, impairment loss of approximately HK$215,771,000, representing mainly the net effect of the decrease in the Group's exploration and evaluation assets of approximately HK$337,434,000 and the increase in the Group's goodwill of approximately HK$122,113,000, should be charged to the Group's consolidated income statement as other operating expenses. The corresponding decrease in the Group's deferred tax liability of HK$84,360,000 should result a tax credit to the Group's consolidated income statement.

3. CORRECTION OF PRIOR PERIOD ERRORS (continued)

(c) Summary of effects of correction of errors

The following is a summary of effects of correction of errors on:

I. the Group's consolidated income statement for the year ended 31 December 2008;

II. the Group's consolidated statement of comprehensive income for the year ended 31 December 2008;

III. the Group's consolidated statement of financial position as at 31 December 2008; and

IV. the Group's consolidated statement of financial position as at 1 January 2008.

I. Effect of correction of errors on the Group's consolidated income statement for the year ended 31 December 2008

	As previously reported HK$'000	***Note 3(a)(iii)*** HK$'000	***Note 3(a)(iv)*** HK$'000	***Note 3(b)(iii)*** HK$'000	**As restated** HK$'000
Turnover	133,357	–	–	–	133,357
Cost of sales	(91,760)	–	–	–	(91,760)
Gross profit	41,597	–	–	–	41,597
Other income	155,514	–	–	–	155,514
Selling and distribution costs	(18,000)	–	–	–	(18,000)
Administrative expenses	(31,361)	–	–	–	(31,361)
Other operating expenses	(295,049)	(21,529)	–	(215,771)	(532,349)
Loss from operations	(147,299)	(21,529)	–	(215,771)	(384,599)
Finance costs	(18,705)	–	–	–	(18,705)
Share of profit of a jointly-controlled entity	449	–	–	–	449
Loss before tax	(165,555)	(21,529)	–	(215,771)	(402,855)
Income tax credit	7,375	33,987	24,422	84,360	150,144
Loss for the year	(158,180)	12,458	24,422	(131,411)	(252,711)
Minority interests	(369)	–	–	–	(369)
Loss attributable to equity holders of the Company	(158,549)	12,458	24,422	(131,411)	(253,080)
Loss per share attributable to equity holders of the Company (expressed in HK cents per share)					
Basic	(4.09)	0.32	0.63	(3.40)	(6.54)
Diluted	(7.07)	0.30	0.59	(3.17)	(9.35)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. CORRECTION OF PRIOR PERIOD ERRORS (continued)

(c) Summary of effects of correction of errors (continued)

II. Effect of correction of errors on the Group's consolidated statement of comprehensive income for the year ended 31 December 2008:

	As previously reported HK$'000	Note 3(a)(ii) HK$'000	Note 3(a)(iii) HK$'000	Note 3(a)(iv) HK$'000	Note 3(b)(ii) HK$'000	Note 3(b)(iii) HK$'000	As restated HK$'000
Loss for the year	(158,180)	–	12,458	24,422	–	(131,411)	(252,711)
Exchange differences arising from translation of foreign operations	8,792	14,879	–	–	13,653	450	37,774
Deficit on revaluation of properties	(297)	–	–	–	–	–	(297)
Deferred tax liability arising on revaluation of properties	(95)	–	–	–	–	–	(95)
Less: Reclassification adjustment for exchange difference to profit or loss upon disposal of subsidiaries	(3,995)	–	–	–	–	–	(3,995)
Other comprehensive income for the year, net of tax	4,405	14,879	–	–	13,653	450	33,387
Total comprehensive income for the year	(153,775)	14,879	12,458	24,422	13,653	(130,961)	(219,324)
Attributable to							
Equity holders of the Company	(154,144)	14,879	12,458	24,422	13,653	(130,961)	(219,693)
Minority interests	369	–	–	–	–	–	369
Total comprehensive income attributable to equity holders	(153,775)	14,879	12,458	24,422	13,653	(130,961)	(219,324)

3. CORRECTION OF PRIOR PERIOD ERRORS (continued)

(c) Summary of effects of correction of errors (continued)

III. Effect of correction of errors on the Group's consolidated statement of financial position as at 31 December 2008

	As previously reported	Note 3(a)(i)	Note 3(a)(ii)	Note 3(a)(iii)	Note 3(a)(iv)	Note 3(b)(i)	Note 3(b)(ii)	Note 3(b)(iii)	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets									
Goodwill	658,405	(237,002)	–	47,833	–	(591,349)	–	122,113	–
Exploration and evaluation assets	53,484	353,735	36,363	(200,928)	–	788,465	18,204	(337,434)	711,889
Other non-current assets	74,822	–	–	–	–	–	–	–	74,822
	786,711	116,733	36,363	(153,095)	–	197,116	18,204	(215,321)	786,711
Current assets	90,053	–	–	–	–	–	–	–	90,053
Current liabilities	(167,507)	–	–	–	–	–	–	–	(167,507)
Net current liabilities	(77,454)	–	–	–	–	–	–	–	(77,454)
Total assets less current liabilities	709,257	116,733	36,363	(153,095)	–	197,116	18,204	(215,321)	709,257
Non-current liabilities									
Borrowings	(18,376)	–	–	–	–	–	–	–	(18,376)
Deferred tax liabilities	(3,920)	(116,733)	(10,413)	55,430	24,422	(197,116)	(4,551)	84,360	(168,521)
Convertible notes	(234,128)	–	–	–	–	–	–	–	(234,128)
	(256,424)	(116,733)	(10,413)	55,430	24,422	(197,116)	(4,551)	84,360	(421,025)
Net assets	452,833	–	25,950	(97,665)	24,422	–	13,653	(130,961)	288,232
Equity									
Share capital	82,315	–	–	–	–	–	–	–	82,315
Reserves	368,567	–	25,950	(97,665)	24,422	–	13,653	(130,961)	203,966
Minority Interests	1,951	–	–	–	–	–	–	–	1,951
Total equity	452,833	–	25,950	(97,665)	24,422	–	13,653	(130,961)	288,232

3. CORRECTION OF PRIOR PERIOD ERRORS (continued)

(c) Summary of effects of correction of errors (continued)

IV. Effect of correction of errors on the Group's consolidated statement of financial position as at 1 January 2008

	As previously reported HK$'000	*Note 3(a)(i)* HK$'000	*Note 3(a)(ii)* HK$'000	*Note 3(a)(iii)* HK$'000	As restated HK$'000
Non-current assets					
Goodwill	303,590	(237,002)	–	(66,588)	–
Exploration and evaluation assets	38,346	353,735	16,524	(64,978)	343,627
Other non-current assets	70,002	–	–	–	70,002
	411,938	116,733	16,524	(131,566)	413,629
Current assets	103,038	–	–	–	103,038
Current liabilities	(60,434)	–	–	–	(60,434)
Net current assets	42,604	–	–	–	42,604
Total assets less current assets	454,542	116,733	16,524	(131,566)	456,233
Non-current liabilities					
Borrowings	(1,284)	–	–	–	(1,284)
Deferred tax liabilities	(4,163)	(116,733)	(5,453)	21,443	(104,906)
Convertible notes	–	–	–	–	–
	(5,447)	(116,733)	(5,453)	21,443	(106,190)
Net assets	449,095	–	11,071	(110,123)	350,043
Equity					
Share capital	68,132	–	–	–	68,132
Reserves	379,381	–	11,071	(110,123)	280,329
Minority Interests	1,582	–	–	–	1,582
Total equity	449,095	–	11,071	(110,123)	350,043

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings, investment properties, investments, derivative financial instruments and financial liabilities at fair value through profit or loss which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgement in the process of applying the Group's accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the subsidiary and also any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the portion of interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between minority and owners of the Company (majority interests). Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the majority interests except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interests until the minority's share of losses previously absorbed by the majority interests has been recovered.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy in note (x) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary are initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Jointly-controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly-controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly-controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the jointly-controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly-controlled entity's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Jointly-controlled entities (continued)

The Group's share of a jointly-controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly-controlled entity equals or exceeds its interest in the jointly-controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly-controlled entity. If the jointly-controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a jointly-controlled entity represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the jointly-controlled entity and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly-controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(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 ("HK$"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Leasehold land and buildings, and buildings comprise mainly factories and offices. Leasehold land and buildings, and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. 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 cost less accumulated depreciation and impairment losses.

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 recognised in profit or loss during the financial period in which they are incurred.

Revaluation increases of leasehold land and buildings, and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of revalued leasehold land and buildings, and buildings, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Leasehold land and buildings	Over the lease terms
Buildings	20 years
Mining structure	Units of production method
Leasehold improvements	10 years
Plant and machinery	5 to 10 years
Moulds	5 to 10 years
Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	4 to 5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

(g) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to mining rights and are amortised. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on a straight line basis over the shorter of their useful life estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

(i) Trademarks and license rights

Trademarks and license rights are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

(j) Leases

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(k) Research expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred. An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

– an asset is created that can be identified;

– it is probable that the asset created will generate future economic benefits; and

– the development cost of the asset can be measured reliably.

Internally generated intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives of five years. Where no internally generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(n) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(o) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost 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 end of reporting period.

(ii) Convertible notes

Convertible notes which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The liability component is recognised at fair value at the date of issue and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition.

(iii) Financial liabilities at fair value through profit or loss

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial liabilities and equity instruments (continued)

(iv) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sales of goods

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(iii) Interest income

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

(s) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss 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.

The employees in the Company's subsidiaries operating in the PRC are members of retirement benefits schemes (the "PRC RB Schemes") operated by the local municipal governments. The PRC subsidiaries are required to contribute to the PRC RB Schemes to fund the retirement benefits. The local municipal governments undertakes to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the PRC RB Schemes is to meet the required contributions under the PRC RB Schemes. The contributions are charged to the profit or loss as they become payable in accordance with the relevant laws and regulations of the PRC.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(t) Share-based payments

The Group issues equity-settled payments to certain directors, employees and a consultant. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and be adjusted for the effect of non market-based vesting conditions.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(v) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised 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. 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 deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in jointly-controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(w) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(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); or

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

(x) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investment properties, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Impairment of assets (continued)

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(y) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(z) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Split of land and building elements

The Group determines that the lease payments cannot be allocated reliably between the land and building elements on certain leasehold land and buildings. Accordingly, leasehold land and buildings with carrying amount of approximately HK$15,195,000 (2008: HK$12,355,000) as at 31 December 2009 is classified as finance leases and included under property, plant and equipment.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, 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.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Recoverability of exploration and evaluation assets

The directors are satisfied with the recoverability of exploration and evaluation assets with carrying value of approximately HK$711,889,000 (2008: HK$711,889,000) as at 31 December 2009 by reference to the market values of the relevant CGU. The market values were developed through the application of a valuation method, where certain estimates were used. In determining the market values, the directors have appointed an independent firm of professional valuer and the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. In addition, the market values of the relevant CGU are estimated on the assumption that there are willing buyers for those particular CGU of the Group. Where such willing buyers cannot be identified in the market, the carrying amounts of exploration and evaluation assets may not be recovered in full.

(d) Fair values of leasehold land and buildings, buildings and investment properties

The Group appointed a firm of independent professional valuers to assess the fair values of the leasehold land and buildings, buildings and investment properties. In determining the fair values, the valuers have utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market condition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer tastes and competitors' actions in response to serve industry cycles. Management will reassess the estimates by the end of the reporting period.

(f) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(g) Fair value of derivatives and other financial instruments

As disclosed in notes 27 and 28 to the consolidated financial statement, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

(h) Share-based payment expenses

The fair value of the share options granted to certain directors, employees and consultant determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies (HK$ and Renminbi ("RMB")) of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Included in the bank and cash balances of the Group is an amount of approximately HK$14,913,000 as at 31 December 2009 (2008: HK$65,234,000) denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

(b) Price risk

The Group is exposed to equity price change of the Company's share as the Group's financial liabilities at fair value through profit or loss (note 28) and derivative components of convertible notes (note 27) are measured at fair value at the end of each reporting period.

At 31 December 2009, if equity price of the Company's share had increased/decreased by 5% with all other variable held constant, consolidated loss after tax for the year would have been approximately HK$8,297,000/ HK$8,130,000 (2008: HK$429,000/HK$151,000) higher/lower as a result of fair value losses/gains on financial liabilities at fair value through profit or loss and derivative component of convertible notes.

(c) Credit risk

The carrying amounts of the trade and other receivables, amount due from a jointly-controlled entity, bank and cash balances, and financial assets at fair value through profit or loss included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets.

At 31 December 2009, the Group has certain concentration of credit risk as 27% (2008: 13%) and 82% (2008: 46%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2009 respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on bank and cash balances is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies.

The credit risk of the Group's other financial assets, which comprise other receivables, amount due from a jointly-controlled entity and financial assets at fair value through profit or loss, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with creditworthy third parties, there is no requirement for collateral.

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Total contractual undiscounted cash flow	**Less than 1 year or on demand**	**Between 1 and 5 years**	**Over 5 years**
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2009				
Trade and bills payables	12,896	12,896	–	–
Accruals and other payables	27,304	27,304	–	–
Borrowings	47,452	41,659	2,578	3,215
At 31 December 2008				
Trade and bills payables	10,165	10,165	–	–
Accruals and other payables	21,585	21,585	–	–
Borrowings	64,695	42,135	22,560	–
Convertible notes	254,065	–	254,065	–
Promissory notes	95,416	95,416	–	–

(e) Interest rate risk

The Group's exposure to interest-rate risk relates primarily to the Group's cash and interest-bearing loans. The Group manages its interest rate exposure from cash through placing them into appropriate short term deposits with a mixture of variable and fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

A reasonably possible change of 50 basis points in interest rate would have no material impact on the Group's profit and equity for the year.

6. FINANCIAL RISK MANAGEMENT (continued)

(f) Categories of financial instruments at 31 December 2009

	2009 **HK$'000**	2008 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss		
– Held for trading	**286**	286
Loans and receivables (including cash and cash equivalents)	**89,757**	80,122
Financial liabilities:		
Financial liabilities at fair value through profit or loss/derivative financial instruments		
– Designated as such upon initial recognition	**302,741**	1,059
Financial liabilities measured at amortised cost	**83,094**	418,554

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2009:

	Fair value measurement using:			
Description	**Level 1** HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Assets				
Financial assets at fair value through profit or loss	286	–	–	286
Liabilities				
Financial liabilities at fair value through profit or loss	–	302,741	–	302,741

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2009 HK$'000	2008 HK$'000
Turnover		
Sales of goods	**121,556**	133,357
Other income		
Fair value gain on derivative component of convertible notes *(note 27)*	**979**	146,040
Fair value gain on investment properties *(note 15)*	**158**	334
Gain on disposal of subsidiaries *(note 34(b))*	**–**	7,018
Gain on derecognition of convertible notes upon change of terms *(note 27)*	**88,897**	–
Interest income	**218**	540
Rental income *(note 15)*	**156**	209
Sale of moulds	**1,716**	235
Others	**1,316**	1,138
	93,440	155,514

Segment information

The Group has two reportable segments as follows:

Exploration and mining – Exploration and mining of natural resources

Toys and gifts items – Manufacturing and trading of toys and gifts items

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include gain on derecognition of convertible notes, fair value gain of derivative component of convertible notes, fair value loss on financial liabilities at fair value through profit or loss, other corporate income and other corporate expenses. Segment assets do not include bank and cash balances at corporate level and other corporate assets. Segment liabilities do not include financial liabilities at fair value through profit or loss, borrowings, promissory notes, convertible notes and other corporate liabilities.

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (continued)

Segment information (continued)

(a) Information about reportable segment loss, assets and liabilities:

	Exploration and mining		Toys and gifts items		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Year ended 31 December						
Revenue from external customers	**421**	–	**121,135**	133,357	**121,556**	133,357
Segment loss	**(13,458)**	(389,714)	**(7,473)**	(842)	**(20,931)**	(390,556)
Depreciation and amortisation	**206**	212	**6,139**	6,576	**6,345**	6,788
Interest income	**11**	6	**207**	532	**218**	538
Interest expenses	**4,317**	4,546	**644**	1,448	**4,961**	5,994
Impairment loss on exploration and evaluation assets	**–**	473,383	**–**	–	**–**	473,383
Impairment loss on goodwill	**–**	20,266	**–**	–	**–**	20,266
Impairment loss on mining rights	**–**	35,493	**–**	–	**–**	35,493
Allowance for amount due from a jointly-controlled entity	**–**	–	**1,857**	–	**1,857**	–
Additions to segment non-current assets	**486**	876,882	**6,399**	1,247	**6,885**	878,129
At 31 December						
Segment assets	**741,941**	735,576	**84,524**	140,982	**826,465**	876,558
Segment liabilities	**206,164**	201,303	**40,546**	24,033	**246,710**	225,336

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (continued)

Segment information (continued)

(b) Reconciliation of reportable segment loss, segment assets and segment liabilities:

	2009 HK$'000	2008 HK$'000 (Restated)
Segment loss		
Total loss of reportable segments	(20,931)	(390,556)
Unallocated amounts:		
Corporate expenses		
Fair value loss on financial liabilities at fair value through profit or loss	(110,079)	–
Others	(23,531)	(15,262)
	(133,610)	(15,262)
Corporate income		
Gain on derecognition of convertible notes upon change of terms	88,897	–
Fair value gain of derivative component of convertible notes	979	146,040
Others	–	7,067
	89,876	153,107
Loss for the year	(64,665)	(252,711)

	2009 HK$'000	2008 HK$'000 (Restated)
Segment assets		
Total assets of reportable segments	826,465	876,558
Unallocated corporate assets		
Bank and cash balances	59,406	36
Others	491	170
	59,897	206
	886,362	876,764

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (continued)

Segment information (continued)

(b) Reconciliation of reportable segment loss, segment assets and segment liabilities: (continued)

	2009 HK$'000	2008 HK$'000 (Restated)
Segment liabilities		
Total liabilities of reportable segments	246,710	225,336
Unallocated corporate liabilities		
Financial liabilities at fair value through profit or loss	302,741	–
Borrowings	2,000	29,500
Promissory notes	–	95,416
Convertible notes	–	234,128
Others	3,474	4,152
	308,215	363,196
	554,925	588,532

(c) Geographical information:

	Revenue 2009 HK$'000	2008 HK$'000
The PRC (including Hong Kong)	4,277	9,565
North America*	91,069	104,538
European Union**	18,634	11,764
Others***	7,576	7,490
	121,556	133,357

* *North America includes the United States of America and Canada.*

** *European Union includes Spain, Italy, France and the United Kingdom.*

*** *Others include Middle East, South America and Southeast Asia.*

In representing the geographical information, revenue is based on the location of the customers.

All non-current assets of the Group are located in the PRC (including Hong Kong).

(d) Revenue from major customers:

	2009 HK$'000	2008 HK$'000
Toys and gifts items segment		
Customer A	39,566	42,085

8. FINANCE COSTS

	2009 **HK$'000**	2008 HK$'000
Interest expenses on:		
Bank loans	**6,808**	2,314
Liability component of convertible notes wholly repayable within 5 years *(note 27)*	**11,935**	11,477
Other loans wholly repayable within 5 years	**4,317**	2,743
Trust receipt loans	**–**	369
Others	**–**	1,802
	23,060	18,705

9. INCOME TAX EXPENSE/(CREDIT)

(a)

	2009 **HK$'000**	2008 HK$'000 (Restated)
Current tax		
Hong Kong Profits Tax		
Provision for the year	**82**	885
Under/(over)-provision in prior years	**577**	(17)
	659	868
Overseas		
Provision for the year	**1,079**	–
Under-provision in prior years	**250**	–
	1,329	–
Deferred tax *(note 30)*	**–**	(151,012)
	1,988	(150,144)

Hong Kong Profits Tax is provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the respective jurisdictions in which the subsidiaries of the Group operates, based on existing legislation, interpretations and practices in respect thereof.

9. INCOME TAX EXPENSE/(CREDIT) (continued)

(b) The reconciliation between the income tax expense and the product of loss before tax multiplied by Hong Kong Profits Tax rate is as follows:

	2009 HK$'000	2008 HK$'000 (Restated)
Loss before tax	**(62,677)**	(402,855)
Tax at the applicable tax rate of 16.5% (2008: 16.5%)	**(10,342)**	(66,472)
Tax effect of income that is not taxable	**(14,921)**	(93,067)
Tax effect of expenses that are not deductible	**26,398**	53,882
Tax effect of change in tax rate	**–**	(24,239)
Tax effect of timing difference not recognised	**112**	37
Tax effect of utilisation of tax losses not previously recognised	**(106)**	(111)
Tax effect of unused tax losses not recognised	**800**	195
Under-provision of taxation charges	**827**	305
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(780)**	(20,674)
Income tax expense/(credit)	**1,988**	(150,144)

(c) Tax effects relating to each component of other comprehensive income for the year

	2009			2008 (Restated)		
	Amount Before tax HK$'000	**Tax HK$'000**	**Amount After tax HK$'000**	Amount Before tax HK$'000	Tax HK$'000	Amount After tax HK$'000
Exchange differences on translating foreign operations	**143**	**–**	**143**	37,774	–	37,774
Surplus/(deficits) on revaluation of properties	**2,615**	**220**	**2,835**	(297)	(95)	(392)
Less: Reclassification adjustment for exchange difference to profit or loss upon disposal of subsidiaries	**–**	**–**	**–**	(3,995)	–	(3,995)
Other comprehensive income	**2,758**	**220**	**2,978**	33,482	(95)	33,387

10. LOSS FOR THE YEAR

The Group's loss for the year is stated at after charging/(crediting) the following:

	2009	2008
	HK$'000	HK$'000
		(Restated)
Amortisation of other intangible assets	**12**	660
Auditor's remuneration	**1,000**	750
Allowance for amount due from a jointly-controlled entity	**1,857**	–
Bad debts written off	**3**	847
Cost of inventories sold *(note (a))*	**90,905**	91,760
Depreciation	**6,235**	5,977
Fair value loss on financial liabilities at fair value through profit or loss *(note 28)*	**110,079**	–
Impairment loss on exploration and evaluation assets* *(note 17)*	**–**	473,383
Impairment loss on goodwill* *(note 16)*	**–**	20,266
Impairment loss on mining rights* *(note 18)*	**–**	35,493
Loss on disposals of property, plant and equipment*	**–**	87
Minimum lease payments under operating leases in respect of leasehold land and buildings	**600**	573
Net foreign exchange loss*	**555**	2,342
Research and development expenditure *(note (b))*	**607**	713
(Reversal of)/allowance for inventories	**(478)**	3,022
Staff costs (excluding directors' remuneration *(note 12)*)		
Salaries, bonus and allowance	**24,570**	21,014
Retirement benefits scheme contributions	**2,588**	932
Share-based payment expenses	**428**	1,152
	27,586	23,098

* *Included in other operating expenses*

Note:

(a) *Cost of inventories sold included approximately HK$14,447,000 (2008: HK$11,459,000), HK$4,842,000 (2008: HK$4,503,000) and HK$478,000 (2008: HK$3,022,000) relating to staff costs, depreciation and reversal of/allowance for inventories respectively, which are included in the respective amounts disclosed separately above for each of these types of expenses for the year.*

(b) *Research and development expenditure included approximately HK$540,000 (2008: HK$540,000) relating to staff costs which are also included in the respective amount disclosed separately above for the year.*

11. LOSS PER SHARE

The calculations of basic and diluted loss per share are based on the following:

	2009 **HK$'000**	2008 HK$'000 (Restated)
Loss		
Loss for the purpose of calculating basic loss per share	**64,347**	253,080
Finance costs saving on conversion of convertible notes outstanding	**(11,935)**	(11,477)
Fair value gain on derivative component of convertible notes	**979**	146,040
Gain on derecognition of convertible notes upon change of terms	**88,897**	–
Loss for the purpose of calculating diluted loss per share	**142,288**	387,643
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**4,145,795,645**	3,872,395,894
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	**272,460,919**	275,683,154
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**4,418,256,564**	4,148,079,048

For the year ended 31 December 2009, there was no dilutive effect in relation to the outstanding share options (granted in 2007 and 2009) and non-listed warrants as the average market price of ordinary shares was below the exercise price of the share options and non-listed warrants, and there was anti-dilutive effect in relation to the outstanding share options (granted in 2006) and financial liabilities at fair value through profit or loss.

For the year ended 31 December 2008, there was no dilutive effect in relation to the outstanding share options (granted in 2007) as the average market price of ordinary shares was below the exercise price of the share options, and there was anti-dilutive effect in relation to the outstanding share options (granted in 2006).

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2009

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Hui Kee Fung	–	1,885	–	174	2,059
Mr. Hui Ki Yau (resigned on 22/10/09)	–	1,354	–	125	1,479
Ms. Hui Hung Tan, Teresa (resigned on 22/10/09)	–	650	–	60	710
Mr. Lam Kit Sun (appointed on 27/10/09)	–	119	–	1	120
Mr. Yu Won Kong, Dennis (appointed on 22/10/09)	–	264	–	1	265
Mr. Guo Tianjue (appointed on 22/10/09)	–	265	–	–	265
Independent non-executive directors					
Mr. Peng Guanghui (resigned on 11/1/10)	50	–	–	–	50
Mr. Kung King Ching, Conrad (resigned on 22/10/09)	50	–	–	–	50
Mr. Tang Rongzu (resigned on 22/10/09)	50	–	–	–	50
Mr. Zhang Xianmin (appointed on 22/10/09)	23	–	88	–	111
Mr. Lam Siu Lun, Simon (appointed on 22/10/09)	23	–	88	–	111
Mr. Mohammed Ibrahim Munshi (appointed on 27/10/09)	22	–	88	–	110
	218	4,537	264	361	5,380

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

For the year ended 31 December 2008

Name of director	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Mr. Hui Kee Fung	–	2,017	174	2,191
Mr. Hui Ki Yau	–	1,740	150	1,890
Ms. Hui Hung Tan, Teresa	–	836	72	908
Independent non-executive directors				
Mr. Peng Guanghui	50	–	–	50
Mr. Kung King Ching, Conrad	50	–	–	50
Mr. Tang Rongzu	50	–	–	50
	150	4,593	396	5,139

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2008: HK$Nil).

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals' remuneration

The five highest paid individuals during the year included three (2008: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2008: two) highest paid individuals are as follows:

	2009 **HK$'000**	2008 HK$'000
Salaries, allowances and benefits in kind	**1,460**	1,522
Retirement benefits scheme contributions	**102**	102
	1,562	1,624

The emoluments fell within the following band:

	Number of individuals **2009**	2008
HK$Nil – HK$1,000,000	**2**	2

During the year, no remuneration was paid by the Group to any of the directors or the highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2008: HK$Nil).

13. PROPERTY, PLANT AND EQUIPMENT

	Group								
	Leasehold land and buildings HK$'000	**Buildings** HK$'000	**Mining structure** HK$'000	**Leasehold improve-ments** HK$'000	**Plant and machinery** HK$'000	**Moulds** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
Cost or valuation									
At 1 January 2008	13,940	26,540	–	2,094	11,527	28,488	4,679	4,371	91,639
Additions	128	–	–	–	1,089	426	143	341	2,127
Acquisition of subsidiaries *(note 34(a))*	1,747	–	16,860	–	1,706	–	21	160	20,494
Transfer to investment properties *(note 15)*	(2,530)	–	–	–	–	–	–	–	(2,530)
Exchange difference	40	1,807	383	–	518	1,399	92	188	4,427
Disposals	–	–	–	–	(192)	–	(182)	–	(374)
Disposal of subsidiaries *(note 34(b)(i))*	–	(11,424)	–	–	–	–	–	–	(11,424)
Adjustment on revaluation to equity	(970)	(403)	–	–	–	–	–	–	(1,373)
At 31 December 2008 and 1 January 2009	12,355	16,520	17,243	2,094	14,648	30,313	4,753	5,060	102,986
Additions	–	–	–	–	662	5,700	97	426	6,885
Adjustment on revaluation to equity	2,840	(1,200)	–	–	–	–	–	–	1,640
At 31 December 2009	15,195	15,320	17,243	2,094	15,310	36,013	4,850	5,486	111,511
Accumulated depreciation and impairment									
At 1 January 2008	–	–	–	1,945	8,489	16,299	3,751	3,165	33,649
Charge for the year	292	1,232	–	45	425	3,412	255	316	5,977
Exchange difference	–	–	–	–	378	850	64	111	1,403
Disposals	–	–	–	–	(145)	–	(142)	–	(287)
Disposal of subsidiaries *(note 34(b)(i))*	–	(448)	–	–	–	–	–	–	(448)
Adjustment on revaluation to equity	(292)	(784)	–	–	–	–	–	–	(1,076)
At 31 December 2008 and 1 January 2009	–	–	–	1,990	9,147	20,561	3,928	3,592	39,218
Charge for the year	275	693	–	43	452	4,265	246	261	6,235
Exchange difference	–	7	–	–	4	41	1	2	55
Adjustment on revaluation to equity	(275)	(700)	–	–	–	–	–	–	(975)
At 31 December 2009	–	–	–	2,033	9,603	24,867	4,175	3,855	44,533
Carrying amount									
At 31 December 2009	15,195	15,320	17,243	61	5,707	11,146	675	1,631	66,978
At 31 December 2008	12,355	16,520	17,243	104	5,501	9,752	825	1,468	63,768

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group								
	Leasehold land and buildings	**Buildings**	**Mining structure**	**Leasehold improve-ments**	**Plant and machinery**	**Moulds**	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
The analysis of the cost/valuation at 31 December 2009 of the above assets is as follows:									
At cost	–	–	17,243	2,094	15,310	36,013	4,850	5,486	80,996
At valuation	15,195	15,320	–	–	–	–	–	–	30,515
	15,195	15,320	17,243	2,094	15,310	36,013	4,850	5,486	111,511
The analysis of the cost/valuation at 31 December 2008 of the above assets is as follows:									
At cost	–	–	17,243	2,094	14,648	30,313	4,753	5,060	74,111
At valuation	12,355	16,520	–	–	–	–	–	–	28,875
	12,355	16,520	17,243	2,094	14,648	30,313	4,753	5,060	102,986

An analysis of the carrying amounts of the Group's leasehold land and buildings, and buildings are as follows:

	2009	2008
	HK$'000	HK$'000
Held under medium term leases in Hong Kong *(note (a))*	**13,280**	10,440
Held under medium term leases in the PRC *(note (b))*	**17,235**	18,435
	30,515	28,875

Notes:

(a) The Group's medium term leasehold land and buildings, and buildings situated in Hong Kong were revalued as at 31 December 2009 and 2008 by Castores Magi Asia Limited ("Castores"), an independent firm of professional valuers, on market value basis.

(b) The Group's medium term leasehold land and buildings, and buildings situated in the PRC were revalued as at 31 December 2009 and 2008 by Castores on depreciated replacement cost basis.

Had the Group's leasehold land and buildings, and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 31 December 2009 would have been HK$20,209,000 (2008: HK$21,115,000).

At 31 December 2009, the Group's leasehold land and buildings, and buildings with an aggregate carrying amount of HK$28,000,000 (2008: HK$9,300,000) were pledged to secure banking facilities granted to the Group (note 26).

14. PREPAID LAND LEASE PAYMENTS

	Group HK$'000
Cost	
At 1 January 2008	8,339
Disposal of subsidiaries *(note 34(b)(i))*	(3,573)
Exchange difference	568
At 31 December 2008, 1 January 2009 and 31 December 2009	5,334
Accumulated amortisation	
At 1 January 2008	1,889
Charge for the year	151
Disposal of subsidiaries *(note 34(b)(i))*	(1,676)
Exchange difference	130
At 31 December 2008 and 1 January 2009	494
Charge for the year	98
Exchange difference	1
At 31 December 2009	593
Carrying amount	
At 31 December 2009	4,741
At 31 December 2008	4,840

	2009 **HK$'000**	2008 HK$'000
Analysed for reporting purposes:		
Non-current assets	**4,643**	4,742
Current assets	**98**	98
	4,741	4,840

14. PREPAID LAND LEASE PAYMENTS (continued)

The Group's prepared land lease payments are analysed as follows:

	2009 **HK$'000**	2008 HK$'000
Held under medium-term leases in the PRC	**4,741**	4,840

At 31 December 2009, the Group's prepaid land lease payments with an aggregate carrying amount of HK$4,741,000 (2008: HK$Nil) were pledged to secure banking facilities granted to the Group (note 26).

15. INVESTMENT PROPERTIES

	Group	
	2009 **HK$'000**	2008 HK$'000
At 1 January	**3,440**	400
Exchange difference	**2**	176
Transfer from property, plant and equipment *(note 13)*	**–**	2,530
Fair value gain *(note 7)*	**158**	334
At 31 December	**3,600**	3,440

The Group's investment properties are analysed as follows:

	2009 **HK$'000**	2008 HK$'000
Held under medium-term lease in Hong Kong	**400**	400
Held under medium-term lease in the PRC	**3,200**	3,040
	3,600	3,440

At 31 December 2009 and 2008, the Group's investment properties were revalued by Castores on market value basis.

The Group leases out investment properties under operating leases. The leases typically run for 1 year.

Rental income receivable from investment properties held for use under operating leases amounted to approximately HK$156,000 (2008: HK$209,000) for the year ended 31 December 2009 (note 7). There was no contingent rental recognised during the year ended 31 December 2009 and 2008.

16. GOODWILL

	Group HK$'000 (Restated)
Cost	
At 1 January 2008	66,588
Acquisition of subsidiaries *(note 34(a))*	19,815
Exchange difference	451
At 31 December 2008, 1 January 2009 and 31 December 2009	86,854
Accumulated impairment loss	
At 1 January 2008	66,588
Impairment loss *(note 10)*	20,266
At 31 December 2008, 1 January 2009 and 31 December 2009	86,854
Carrying amount	
At 31 December 2009	–
At 31 December 2008	–

Goodwill is allocated, at acquisition, to the CGU that are expected to benefit from that business combination.

During the year ended 31 December 2007, the Group acquired Mingrunfeng which holds an exploration rights certificate in GCM located in the Inner Mongolia Autonomous Region of the PRC. The exploration rights certificate has a exploration period from 22 September 2009 to 22 September 2011 and is subject to renewal.

During the year ended 31 December 2008, the Group acquired Lucky Dragon Resources Limited and its subsidiary, Heng Yuan (collectively referred to as the "Lucky Dragon Group"). Heng Yuan holds an exploration rights certificate in BCF located in the Inner Mongolia Autonomous Region. The exploration rights certificate has a exploration period from 5 July 2008 to 4 July 2010 and is subject to renewal. Heng Yuan also holds a mining rights certificate of HCM located in the Inner Mongolia Autonomous Region. The mining rights certificate has been renewed with a mining period from August 2008 to August 2011.

16. GOODWILL (continued)

On or before the expiry of the exploration rights certificate, the Group is entitled to either apply for an extension of the exploration rights certificate or to apply for a mining rights certificate should the Group be able to achieve certain capital and equipment conditions as required by the The Ministry of Land and Resources, the PRC. The Group has engaged technical consultants for the necessary exploration works and have been in the process to raise necessary capital in order to achieve to satisfy the required conditions for the application of the mining rights certificates for GCM and BCF.

The carrying amounts of the goodwill arising from the acquisition of Lucky Dragon Group and Mingrunfeng together with the carrying amounts of exploration and evaluation assets (note 17) are allocated to exploration and mining CGU which are directly attributable to the potential mining rights of GCM and BCF respectively. The directors considered that the goodwill arising from acquisition of HCM was immaterial since the potential mining values (in terms of coal reserve) of HCM is substantially less than that of BCF.

The directors assessed the carrying amounts of goodwill and exploration and evaluation assets based on the recoverable amounts of GCM and BCF which are estimated at the higher of the fair value less cost to sell by reference to the market value as at 31 December 2009 issued by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professional valuers and the value in use. The fair value less costs to sell were developed through the application of the market approach which relied on Guideline Transaction method with reference to the historical market transaction prices for acquisition of coal mine with similar exploration rights. The directors firstly allocated the impairment loss to goodwill and then to exploration and evaluation assets. The directors considered that a decline of the average auction price of similar exploration rights of coal mines in the market place in comparable transactions during the year ended 31 December 2008 led to a decrease of the amount of the fair value less cost to sell of GCM and BCF. Impairment loss of approximately HK$20,266,000 was provided for the carrying amount of goodwill for the year ended 31 December 2008.

17. EXPLORATION AND EVALUATION ASSETS

	Group HK$'000 (Restated)
Cost	
At 1 January 2008	408,605
Acquisition of subsidiaries *(note 34(a))*	800,989
Exchange difference	40,656
At 31 December 2008, 1 January 2009 and 31 December 2009	1,250,250
Accumulated impairment loss	
At 1 January 2008	64,978
Impairment loss *(note 10)*	473,383
At 31 December 2008, 1 January 2009 and 31 December 2009	538,361
Carrying amount	
At 31 December 2009	711,889
At 31 December 2008	711,889

17. EXPLORATION AND EVALUATION ASSETS (continued)

As explained in note 16, the exploration and evaluation assets are attributable to GCM and BCF respectively. The directors considered that a decline of the average auction price of similar exploration rights of coal mines in the market place in comparable transactions during the year ended 31 December 2008 led to a decrease of the amount of the fair value less cost to sell of GCM and BCF. Impairment loss of approximately HK$473,383,000 was provided for the carrying amount of exploration and evaluation assets for the year ended 31 December 2008.

18. MINING RIGHTS

	Group HK$'000
Cost	
At 1 January 2008	–
Acquisition of subsidiaries *(note 34(a))*	34,704
Exchange difference	789
At 31 December 2008, 1 January 2009 and 31 December 2009	35,493
Accumulated amortisation and impairment loss	
At 1 January 2008	–
Impairment loss *(note 10)*	35,493
At 31 December 2008, 1 January 2009 and 31 December 2009	35,493
Carrying amount	
At 31 December 2009	–
At 31 December 2008	–

The mining rights are attributable to HCM. The directors considered a decline of average price of coal in the market place during the year ended 31 December 2008 resulted in the substantial impairment on the mining rights. Impairment loss of HK$35,493,000 was provided as at 31 December 2008.

19. OTHER INTANGIBLE ASSETS

	Group		
	Trademark	**License rights**	**Total**
	HK$'000	HK$'000	HK$'000
	(note a)	*(note b)*	
Cost			
At 1 January 2008	1,155	1,459	2,614
Write off	–	(1,459)	(1,459)
At 31 December 2008, 1 January 2009 and 31 December 2009	1,155	–	1,155
Accumulated amortisation			
At 1 January 2008	15	810	825
Amortisation for the year	11	649	660
Write off	–	(1,459)	(1,459)
At 31 December 2008 and 1 January 2009	26	–	26
Amortisation for the year	12	–	12
At 31 December 2009	38	–	38
Carrying amount			
At 31 December 2009	1,117	–	1,117
At 31 December 2008	1,129	–	1,129

Notes:

(a) *During the year 2006, the Group entered into an asset purchase agreement to acquire a trade name "Toland" for 99 years at a consideration of HK$1,155,000 (US$150,000).*

(b) *During the year 2006, the Group entered into a license agreement with Beijing Organising Committee for the right to manufacture official mascots of the Beijing 2008 Olympic Games souvenir products. Professional fee of HK$1,459,000 (RMB1,500,000) directly attributed to obtaining the license was recognised as cost of license rights. The license expired and was written off as at 31 December 2008.*

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2009 HK$'000	2008 HK$'000
Share of net assets	**1,377**	1,743

Notes:

(a) The amount due from a jointly-controlled entity is unsecured, interest-free and repayable on demand.

(b) Details of the Group's jointly-controlled entity at 31 December 2009 and 2008 are as follows:

Company	*Place of incorporation and operations*	*Issued and paid up capital*	*Percentage of ownership interest attributable to the Group*	*Principal activities*
Marketing Resource Group, Inc.	*The United Status of America*	*US$350,000*	*50%*	*Trading of flags and garden products*

(c) The following amounts are the Group's share of the assets and liabilities, sales and results of the jointly-controlled entity:

	2009 HK$'000	2008 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Assets		
Non-current assets	**433**	487
Current assets	**3,712**	4,262
	4,145	4,749
Liabilities		
Current liabilities	**(2,768)**	(3,006)
Net assets	**1,377**	1,743
Share of the jointly-controlled entity's results:		
Income	**14,941**	14,432
Expenses	**(15,307)**	(13,983)
(Loss)/profit after income tax	**(366)**	449

21. INVESTMENTS IN SUBSIDIARIES

	Company 2009 HK$'000	2008 HK$'000
Unlisted investments, at cost	**1,001,707**	1,001,299
Due from subsidiaries	**187,366**	178,272
Less: Impairment losses	**(546,282)**	(528,348)
	642,791	651,223

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the Company's principal subsidiaries at 31 December 2009 are as follows:

Name	Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company	Principal activities
			Directly	
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	50,500 ordinary share of US$1	100%	Investment holding
King Wish Limited	BVI	1 ordinary share of US$1	100%	Investment holding
Super Dragon Management Limited	BVI	1 ordinary share of US$1	100%	Investment holding

21. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company	Principal activities
			Indirectly	
Better Sourcing Worldwide Limited	Hong Kong	100 ordinary share of HK$1	51% (2008: 63%)	Trading of gift items and toys
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary share of HK$1	100%	Trading of gift and toys
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary share of HK$1 and 10,000 non-voting deferred share of HK$1	100%	Investment holding
Newgary Development Limited	Hong Kong	2 ordinary share of HK$1 and 10,000 non-voting deferred share of HK$1	100%	Property holding
Toland International Limited	Hong Kong	4,200,000 ordinary share of HK$1	70%	Trading of flags and garden products
福建奇嘉禮品玩具有限公司 (Fujian Kcare Giftoys Co., Ltd.)	PRC	RMB 10,000,000	100%	Manufacture and trading of gifts and toys
福建嘉雄玩具有限公司 (Fujian Ka Hung Toys Co., Ltd.)	PRC	RMB10,000,000	100%	Manufacture and trading of gifts and toys
內蒙古銘潤峰能源有限公司 (Inner Mongolia Mingrunfeng Energy Co., Ltd.)	PRC	RMB20,000,000	100%	Exploration and mining

21. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company	Principal activities
			Indirectly	
通遼市恒源礦業有限責任公司 (Tongliao City Heng Yuan Mining Company Limited)	PRC	RMB12,673,123	100%	Exploration and mining
Bright Asset Investments Limited	BVI	10,000 ordinary share of US$1	100%	Investment holding
First Choice Resources Limited	BVI	1 ordinary share of US$1	100%	Investment holding
Growth Gain Investments Limited	BVI	100 ordinary share of US$1	100%	Investment holding
Jumplex Investments Limited	BVI	1 ordinary share of US$1	100%	Investment holding
Lucky Dragon Resources Limited	BVI	1 ordinary share of US$1	100%	Investment holding
Top Point Investments Limited	BVI	100 ordinary share of US$1	100%	Investment in securities
Wise House Limited	BVI	36,000 ordinary share of US$1	100%	Investment holding

22. INVENTORIES

	Group 2009 HK$'000	2008 HK$'000
Raw materials	**12,291**	13,889
Work in progress	**3,391**	3,473
Finished goods	**2,202**	4,223
	17,884	21,585
Less: Allowance of inventories	**(11,778)**	(12,256)
	6,106	9,329

23. TRADE RECEIVABLES

The ageing analysis of trade receivables as at the end of reporting period, based on invoice dates, is as follows:

	Group 2009 HK$'000	2008 HK$'000
Within 30 days	**2,683**	4,280
31 days to 90 days	**121**	552
91 days to 180 days	**–**	130
181 days to 360 days	**–**	52
	2,804	5,014

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 can be extended up to 90 days 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.

23. TRADE RECEIVABLES (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2009 **HK$'000**	2008 HK$'000
HK$	**–**	66
US$	**2,758**	4,362
RMB	**46**	586
	2,804	5,014

At 31 December 2009, trade receivables of approximately HK$1,050,000 (2008: HK$678,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables, based on the number of overdue date, is as follows:

	2009 **HK$'000**	2008 HK$'000
Within 90 days	**1,050**	632
91 days to 180 days	**–**	43
181 to 360 days	**–**	3
	1,050	678

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009 **HK$'000**	2008 HK$'000
Securities listed in Hong Kong, at fair value	**286**	286
Market value of securities	**286**	286

The financial assets are held for trading.

25. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables as at the end of reporting period, based on invoice dates, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**2,812**	3,740
31 days to 90 days	**3,231**	2,751
91 days to 180 days	**5,024**	2,646
181 days to 360 days	**1,329**	733
Over 360 days	**500**	295
	12,896	10,165

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2009	2008
	HK$'000	HK$'000
HK$	**950**	452
US$	**781**	2,054
RMB	**11,165**	7,659
	12,896	10,165

26. BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans	**16,364**	1,275	**–**	–
Trust receipt loans	**–**	2,524	**–**	–
Other loans	**24,319**	47,750	**–**	24,000
Due to a related company[#]	**–**	5,500	**–**	5,500
Due to shareholders	**2,211**	211	**2,000**	–
	42,894	57,260	**2,000**	29,500

26. BORROWINGS (continued)

	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Current				
Bank loans	**11,755**	512	**–**	–
Trust receipt loans	**–**	2,524	**–**	–
Other loans	**24,319**	30,137	**–**	24,000
Due to a related company#	**–**	5,500	**–**	5,500
Due to shareholders	**2,211**	211	**2,000**	–
	38,285	38,884	**2,000**	29,500
Non-current				
Bank loans	**4,609**	763	**–**	–
Other loans	**–**	17,613	**–**	–
	4,609	18,376	**–**	–
Total borrowings	**42,894**	57,260	**2,000**	29,500
Secured *(notes (a)(i) and (a)(iii))*	**16,364**	1,275	**–**	–
Unsecured *(notes (a)(ii) and (a)(iii))*	**26,530**	55,985	**2,000**	29,500

Two directors of the Company are also the directors of this related company.

At 31 December 2009, the borrowings were repayable as follows:

(a) Group

	Bank loans 2009 HK$'000	Bank loans 2008 HK$'000	Trust receipt loans 2009 HK$'000	Trust receipt loans 2008 HK$'000	Other loans 2009 HK$'000	Other loans 2008 HK$'000	Due to a related company 2009 HK$'000	Due to a related company 2008 HK$'000	Due to shareholders 2009 HK$'000	Due to shareholders 2008 HK$'000	Total 2009 HK$'000	Total 2008 HK$'000
Within one year	**11,755**	512	**–**	2,524	**24,319**	30,137	**–**	5,500	**2,211**	211	**38,285**	38,884
In the second year	**412**	534	**–**	–	**–**	17,613	**–**	–	**–**	–	**412**	18,147
In the third to fifth years	**1,374**	229	**–**	–	**–**	–	**–**	–	**–**	–	**1,374**	229
Over five years	**2,823**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2,823**	–
	16,364	1,275	**–**	2,524	**24,319**	47,750	**–**	5,500	**2,211**	211	**42,894**	57,260

26. BORROWINGS (continued)

(b) Company

	Other loans		Due to a related company		Due to a shareholder		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	24,000	**–**	5,500	**2,000**	–	**2,000**	29,500
In the second year	**–**	–	**–**	–	**–**	–	**–**	–
In the third to fifth years	**–**	–	**–**	–	**–**	–	**–**	–
Over five years	**–**	–	**–**	–	**–**	–	**–**	–
	–	24,000	**–**	5,500	**2,000**	–	**2,000**	29,500

Note:

(a) *Facilities*

At 31 December 2009, the Group's borrowings were secured by:

(i) *Charges over certain of the Group's leasehold land and buildings, buildings and prepaid land lease payments (notes 13 and 14); and*

(ii) *Joint and several corporate guarantees provided by the Company's subsidiaries.*

(iii) *Personal guarantee by the Company's director.*

(b) *The effective interest rates per annum at the end of reporting period were as follows:*

	2009	2008
Bank loans		
– Floating rate (2009: HK$5,000,000; 2008: HK$1,275,000)	**Prime rate**	Prime rate minus 1%
– Fixed rate (remaining)	**5.31%**	N/A
Trust receipt loans		
– Floating rate	**N/A**	Prime rate
Other loans		
– Fixed rates (2009: HK$18,182,000; 2008: HK$41,613,000)	**From 18% to 19.2%**	From 18% to 19.2
– The remaining other loans are interest-free	**N/A**	N/A
Due to a related company		
– Fixed rate	**N/A**	11%
Due to shareholders		
– Fixed rate (2009: HK$2,000,000; 2008: HK$Nil)	**11%**	N/A
– The remaining amounts due to shareholders are interest-free	**N/A**	N/A

(c) *The carrying amounts of the Group's borrowings are denominated in the following currencies:*

	2009 HK$'000	2008 HK$'000
HK$	**7,000**	33,298
RMB	**35,894**	23,962
	42,894	57,260

27. CONVERTIBLE NOTES

On 28 March 2008, the convertible notes of nominal value of HK$254,065,000 ("CN1") were issued as part of the consideration for an acquisition of subsidiaries (note 34(a)). Pursuant to the terms of CN1, CN1 are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of CN1 and 28 March 2010. Any CN1 not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

On 2 October 2009, the Company and CN1 holders entered into a deed to alter certain terms of CN1. A summary of the salient points of the changes in terms is set out in note 28. Liability and derivative components of CN1 have been derecognised as a result of substantial changes in terms of CN1.

The fair value of CN1 has been split between the liability component and derivative component as follows:

	Group and Company		
	Liability component HK$'000	**Derivative component** HK$'000	**Total** HK$'000
At 28 March 2008	222,651	147,099	369,750
Interest expense *(note 8)*	11,477	–	11,477
Fair value gain on derivative component of CN1 *(note 7)*	–	(146,040)	(146,040)
At 31 December 2008 and 1 January 2009	234,128	1,059	235,187
Interest expense *(note 8)*	11,935	–	11,935
Fair value gain on derivative component of CN1 *(note 7)*	–	(979)	(979)
Transfer to Altered CN1 upon change of terms *(note 28)*	(157,246)	–	(157,246)
Gain on derecognition upon change of terms *(note 7)*	(88,817)	(80)	(88,897)
At 31 December 2009	–	–	–

The interest charged for the year ended 31 December 2009 and 2008 is calculated by applying an effective interest rate of 6.822% to the liability component since the CN1 were issued.

The directors estimate the fair value of liability component of CN1 at 31 December 2008 to be approximately HK$203,459,000. This fair value was calculated by discounting the future cash flows at the market rate.

The fair value of the derivative component of CN1 was estimated at date of issuance using the Black-Scholes Model and the change in fair value of that component is recognised in the profit or loss. The residual amount is assigned as the liability component.

27. CONVERTIBLE NOTES (continued)

Parameter		At 28 March 2008	At 31 December 2008	At 2 October 2009
(a)	Stock price	HK$0.88	HK$0.24	HK$0.223
(b)	Exercise price	HK$0.70	HK$0.70	HK$0.70
(c)	Risk-free rate	1.245%	0.347%	0.11%
(d)	Expected life	2 years	1.2 years	0.5 years
(e)	Volatility	80.32%	53.69%	62.36%

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On 2 October 2009, the Company and CN1 holders entered into a deed to alter certain terms of CN1 ("Altered CN1") such that:

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

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

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

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

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

On 2 October 2009, the convertible notes of nominal value of approximately HK$35,416,000 ("CN2") were issued, and the subscription price payable by CN2 holders was satisfied by capitalizing outstanding principal amount of the promissory notes of approximately HK$35,416,000 (note 29). The terms of CN2 are same as Altered CN1. The management has designated the entire CN2 as financial liabilities at fair value through profit or loss.

	Group and Company		
	Altered CN1	**CN2**	**Total**
	HK$'000	HK$'000	HK$'000
Transfer from CN1 upon change of terms *(note 27)*	157,246	–	157,246
Issue of CN2	–	35,416	35,416
Fair value loss *(note 10)*	89,469	20,610	110,079
At 31 December 2009	246,715	56,026	302,741

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The fair value of financial liabilities at fair value through profit or loss of Altered CN1 and CN2 was estimated at date of issuance using the Black-Scholes Model and discounting future cash flows with certain assumptions.

		Altered CN1		CN2	
Parameter		**At 2 October 2009**	**At 31 December 2009**	**At 2 October 2009**	**At 31 December 2009**
(a)	Stock price	HK$0.223	HK$0.385	HK$0.223	HK$0.385
(b)	Exercise price	HK$0.25	HK$0.25	HK$0.25	HK$0.25
(c)	Risk–free rate	0.32% – 2.25%	0.31% – 2.58%	0.32% – 0.48%	0.31% – 0.49%
(d)	Expected life	1.5 / 12 years	1.25 / 11.8 years	1.5 / 2 years	1.25 / 1.7 years
(e)	Volatility	57.45%	67.35%	57.54%	67.35%
(f)	Credit spread	6.54% – 13.31%	5.16% – 10.94%	9.10% – 10.91%	6.98% – 7.28%
(g)	Discount rate	8.18% – 15.34%	7.01% – 11.93%	9.58% – 11.23%	7.47% – 7.59%

The holder of CN1, Altered CN1, CN2 and the promissory note (note 29) is Gold Dynasty Investments Limited. The entire issued share capital of Gold Dynasty Investments Limited is beneficially owned as to (i) 55% by Uniview Holdings Limited, the entire issued share capital of which is beneficially owned by Mr. Chung Chi Shing; and (ii) 45% by Top Advance Group Limited. The entire issued share capital of Top Advance Group Limited is beneficially owned as to (i) 50% by Strong Choice Investments (Holdings) Ltd., the entire issued share capital of which is beneficially owned by Yu Won Kong, Dennis, an executive director of the Company; and (ii) 50% by Kau Man Wai, Leslie.

29. PROMISSORY NOTES

During the year ended 31 December 2008, the promissory notes were issued as part of the consideration for an acquisition of subsidiaries (note 34(a)). The promissory notes are unsecured, interest-fee and repayable on or before 28 September 2009 subject to the condition that the Company shall repay the promissory notes to note holder once the Company has sufficient funds for repayment.

On 2 October 2009, principal amount of HK$60,000,000 of the promissory notes was repaid by the Company in cash. The remaining principal amount of approximately HK$35,416,000 of the promissory notes was satisfied by the subscription price of CN2 (note 28).

30. DEFERRED TAX

The followings are the major deferred tax liabilities recognised by the Group.

	Accelerated tax depreciation	**Revaluation surplus on leasehold land and buildings**	**Mining rights**	**Exploration and evaluation assets**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008, as restated	1,016	3,147	–	100,743	104,906
Acquisition of subsidiaries *(note 34(a))*	–	–	8,060	197,116	205,176
Charge to equity	–	95	–	–	95
Credit to profit or loss *(note 9(a))*	–	–	(8,243)	(142,769)	(151,012)
Disposal of subsidiaries *(note 34(b)(i))*	–	(461)	–	–	(461)
Exchange difference	–	123	183	9,511	9,817
At 31 December 2008 and 1 January 2009, as restated	1,016	2,904	–	164,601	168,521
Credit to equity	–	(220)	–	–	(220)
At 31 December 2009	1,016	2,684	–	164,601	168,301

At 31 December 2009 the Group has unused tax losses of approximately HK$8,340,000 (2008: HK$4,131,000) available for offset against future profits of certain subsidiaries. No deferred tax asset has been recognised due to the unpredictability of future taxable profit streams of these subsidiaries.

31. SHARE CAPITAL

	Note	Number of shares 2009	Number of shares 2008	Ordinary share capital 2009 HK$'000	Ordinary share capital 2008 HK$'000
Authorised:					
Ordinary shares of HK$0.02 each		**10,000,000,000**	10,000,000,000	**200,000**	200,000
Issued and fully paid:					
At beginning of year		**4,115,759,800**	3,406,590,600	**82,315**	68,132
Issue of shares on					
– Acquisition of subsidiaries	*(note (a))*	**–**	600,000,000	**–**	12,000
– Exercise of share options	*(note (b))*	**11,547,000**	2,169,200	**231**	43
– On placement	*(note (c))*	**300,000,000**	107,000,000	**6,000**	2,140
At end of year		**4,427,306,800**	4,115,759,800	**88,546**	82,315

Notes:

(a) *The Company issued 600,000,000 consideration shares on 28 March 2008 as part of the consideration for acquisition of subsidiaries (note 34(a)). The fair value of such consideration shares were valued by Grant Sherman, at approximately HK$127,996,000 as at the date of issue and allotment of the shares on 28 March 2008.*

(b) *For the year ended 31 December 2009, the Company issued 11,547,000 (2008: 2,169,200) (note 33) ordinary shares of HK$0.02 each in relation to the exercise of the share options at an exercise price of HK$0.1016 per share (2008: HK$0.1016). The difference between the issue price and par value totaling approximately HK$942,000 (2008: HK$177,000) was credited to share premium. In addition, the portion of share-based payment reserve in relation to the exercise of the share options exercised during the year of approximately HK$821,000 (2008: HK$154,000) was transferred to the Company's share premium account.*

(c) *On 27 November 2008, the Company and a placing agent entered into several placing agreements in respect of the placements of 182,000,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.27 per shares. The placements of 107,000,000 ordinary shares were completed on 9 December 2008 and the premium on the issue of shares, amounting to HK$26,005,000 net of issue share expenses, was credited to the Company's share premium account. The remaining placement of 75,000,000 ordinary shares at best effort basis was in vain and cancelled subsequent to the end of reporting period.*

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

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to continue with the plan for the coal mining operation.

The Group managed the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debts. No changes had been made in the objectives, policies and processes during the years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is the Group's net debts (comprising trade and bill payables, accruals and other payables, borrowings, loan from a shareholder, promissory notes, convertible notes less bank and cash balances) over its total equity. The Company's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2009 was 0.35% (2008: 121.41%).

The only externally imposed capital requirement for the Company to maintain its listing on the Stock Exchange is that it has to have a public float of at least 25% of the Company's shares. The directors regard that the requirement of public float is satisfied during the year.

32. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Share-based payment reserve HK$'000	Non-listed warrants reserve HK$'000	Retained/ (Accumulated losses) profits HK$'000	Total HK$'000
At 1 January 2008	319,794	125,161	4,264	–	10,892	460,111
Total comprehensive income for the year	–	–	–	–	(397,524)	(397,524)
Issue of consideration shares *(note 31(a))*	115,996	–	–	–	–	115,996
Issue of shares upon exercise of share options *(note 31(b))*	331	–	(154)	–	–	177
Issue of shares on placement *(note 31(c))*	26,005	–	–	–	–	26,005
Recognition of share-based payment *(note 33)*	–	–	1,152	–	–	1,152
At 31 December 2008	462,126	125,161	5,262	–	(386,632)	205,917
At 1 January 2009	462,126	125,161	5,262	–	(386,632)	205,917
Total comprehensive income for the year	–	–	–	–	(61,667)	(61,667)
Issue of shares upon exercise of share options *(note 31(b))*	1,763	–	(821)	–	–	942
Issue of shares on placement *(note 31(c))*	96,800	–	–	–	–	96,800
Expenses on issue of convertible notes	(182)					(182)
Issue of non-listed warrants	–	–	–	409	–	409
Recognition of share-based payment *(note 33)*	–	–	692	–	–	692
Release on forfeiture of share options	–	–	(20)	–	–	(20)
At 31 December 2009	560,507	125,161	5,113	409	(448,299)	242,891

33. SHARE-BASED PAYMENT

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who are invited at directors' discretion. Eligible participants, including executive directors, 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 are invited to take up options to subscribe for shares of the Company (the "Shares"). The Scheme became effective on 28 May 2002.

33. SHARE-BASED PAYMENT (continued)

The exercise price of the share options is 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 on the date of offer.

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.

The Group has no legal or constructive obligation to repurchase or settle the options. The consideration payable on the grant of an option is HK$1, for each grant transaction.

Details of the share options granted under the Scheme are as follows:

Share option type	**Date of grant**	**Options granted**	**Adjusted Exercise price**	**Exercise period**
2006(a) *(note (a))*	19 June 2006	53,120,000	HK$0.1016	1 January 2007 to 18 June 2016
2006(b) *(note (a))*	19 June 2006	67,840,000	HK$0.1016	1 January 2007 to 18 June 2016
2007 *(note (b))*	5 July 2007	3,300,000	HK$0.1016	1 July 2008 to 18 June 2016
2009(a) *(note (c))*	27 October 2009	9,000,000	HK$0.4000	27 October 2010 to 27 October 2012
2009(b) *(note (c))*	27 October 2009	9,000,000	HK$0.6000	27 October 2010 to 27 October 2012
2009(c) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2009 to 21 December 2010
2009(d) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2009 to 21 December 2012
2009(e) *(note (d))*	21 December 2009	3,000,000	HK$0.6000	21 December 2009 to 21 December 2012
		151,260,000		

33. SHARE-BASED PAYMENT (continued)

Notes:

(a) *The share options granted on 19 June 2006 are exercisable in the following manner:*

Exercisable period	Maximum exercisable percentage 2006(a)	2006(b)
1 January 2007 to 30 June 2007	50%	15%
1 July 2007 to 31 December 2007	50%	15%
1 January 2008 to 31 December 2008	No limit	35%
1 January 2009 to 31 December 2009	No limit	35%
1 January 2010 to 18 June 2016	No limit	No limit

(b) *The share options granted on 5 July 2007 are exercisable in the following manner:*

Exercisable period	Maximum exercisable percentage 2007
1 July 2008 to 30 June 2009	33.33%
1 July 2009 to 30 June 2010	33.33%
1 July 2010 to 30 June 2011	33.33%
1 July 2011 to 18 June 2016	No limit

(c) *The share options granted to independent non-executive directors on 27 October 2009 are exercisable in the following manner:*

Exercisable period	Maximum exercisable percentage 2009(a)	2009(b)
27 October 2010 to 27 October 2012	100%	0%
27 October 2011 to 27 October 2012	No limit	100%

(d) *The share options granted on 21 December 2009 are exercisable in the following manner:*

Exercisable period	2009(c)	Maximum exercisable percentage 2009(d)	2009(e)
21 December 2009 to 21 December 2010	100%	0%	0%
21 December 2010 to 21 December 2012	No limit	100%	0%
21 December 2011 to 21 December 2012	No limit	No limit	100%

33. SHARE-BASED PAYMENT (continued)

Details of the share options outstanding during the year are as follows:

For the year ended 31 December 2009

Grantee	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Employees	2006(a)	11,560,000	–	(5,600,000)	–	5,960,000	5,960,000	HK$0.1016
	2006(b)	49,879,600	–	(4,747,000)	(274,000)	44,858,600	44,858,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	2,200,000	HK$0.7400
	2009(a)	–	9,000,000	–	–	9,000,000	–	HK$0.4000
	2009(b)	–	9,000,000	–	–	9,000,000	–	HK$0.6000
	2009(c)	–	3,000,000	–	–	3,000,000	3,000,000	HK$0.4240
	2009(d)	–	3,000,000	–	–	3,000,000	–	HK$0.4240
	2009(e)	–	3,000,000	–	–	3,000,000	–	HK$0.6000
		64,739,600	27,000,000	(10,347,000)	(274,000)	81,118,600	56,018,600	
Consultant	2006(a)	1,200,000	–	(1,200,000)	–	–	–	HK$0.1016
		65,939,600	27,000,000	(11,547,000)	(274,000)	81,118,600	56,018,600	
Weighted average closing price		–	–	HK$0.4254	–	–	–	
Weighted average exercise price		HK$0.1335	HK$0.4942	HK$0.1016	HK$0.1016	HK$0.2583	HK$0.1439	

For the year ended 31 December 2008

Grantee	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Employees	2006(a)	12,010,000	–	(450,000)	–	11,560,000	11,560,000	HK$0.1016
	2006(b)	51,598,800	–	(1,719,200)	–	49,879,600	26,315,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	1,100,000	HK$0.7400
		66,908,800	–	(2,169,200)	–	64,739,600	38,975,600	
Consultant	2006(a)	1,200,000	–	–	–	1,200,000	1,200,000	HK$0.1016
		68,108,800	–	(2,169,200)	–	65,939,600	40,175,600	
Weighted average closing price*		–	–	HK$0.9042	–	–	–	
Weighted average exercise price		HK$0.1325	–	HK$0.1016	–	HK$0.1335	HK$0.1191	

* *Weighted average closing price of shares is the weighted average closing price of the Company's shares at the business days immediately before the dates on which the options were excised.*

33. SHARE-BASED PAYMENT (continued)

The estimated fair value of options granted under the Scheme on 19 June 2006, 5 July 2007, 27 October 2009 and 21 December 2009 measured at date of grant, were approximately HK$8,604,000, HK$1,077,000, HK$2,081,000 and HK$983,000 respectively. The following significant assumptions and estimates were used by the independent valuers to derive the fair value of the options granted during the year, using the Black-Scholes Model:

	Date of grant	
	19 June 2006	**5 July 2007**
Expected volatility (based on 260-day historical volatility of the Company's shares)	48.916%	125.24%
Expected life	10 years	3 years
Risk-free interest rate	5.14%	4.449%
Expected dividend yield	Nil	Nil

	Date of grant 27 October 2009	
	2009(a)	**2009(b)**
Expected volatility (based on 520-day (2009(a)) and 650-day (2009(b)) historical volatility of the Company's shares)	59.36%	67.71%
Expected life	3	3
Risk-free interest rate	0.380% to 0.811%	0.597% to 1.027%
Expected dividend yield	Nil	Nil

		Date of grant 21 December 2009	
	2009(c)	**2009(d)**	**2009(e)**
Expected volatility (based on 130-day (2009(c)), 520-day (2009(d)) and 650-day (2009(e)) historical volatility of the Company's shares)	70.78%	61.32%	68.94%
Expected life	1	3	3
Risk-free interest rate	0.080% to 0.131%	0.304% to 0.714%	0.486% to 0.939%
Expected dividend yield	Nil	Nil	Nil

The Group recognised HK$692,000 (2008: HK$1,152,000) share-based payment expenses in the profit or loss for the year ended 31 December 2009, of which the amount has been included as staff costs, and the corresponding amount has been credited to share-based payment reserve.

If the options remain unexercised after the exercise period, the options expire. Options are forfeited if the employee leaves the Group before the options vest. For the year ended 31 December 2009 the total of forfeited options is approximately HK$20,000 (2008: HK$Nil) which has been transferred from share-based payment reserve to accumulated losses.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

On 28 March 2008, Growth Gain Investments Limited ("Growth Gain"), an indirectly wholly owned subsidiary of the Company, acquired the entire equity interest of Lucky Dragon Group. The fair value of the consideration of the acquisition was HK$599,555,000 of which HK$6,393,000 was paid by cash and the remaining balance was satisfied by the issue of 600,000,000 consideration shares, the issue of convertible notes of HK$369,750,000 and promissory notes of HK$95,416,000 on 28 March 2008.

The acquired business contributed turnover of HK$Nil and loss after tax of HK$137,536,000 to the Group for the period from 28 March 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's turnover would have been HK$133,357,000 and loss for the year would have been HK$253,026,000 (restated). The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is intended to be a projection of future results.

The identifiable assets and liabilities, stating at fair value arising from the acquisition are as follows:

	2008 HK$'000 (Restated)
Net assets acquired:	
Property, Plant and equipment	20,494
Mining rights	34,704
Exploration and evaluation assets	800,989
Other receivables	128
Accruals and other payables	(65,120)
Deferred tax liabilities *(note 30)*	(205,176)
Due to a shareholder	(49,073)
Borrowings	(6,001)
Net assets	530,945
Translation adjustments	(278)
Fair value of net assets acquired	530,667
Purchase consideration satisfied by:	
Cash paid in 2008	3,393
Deposit paid in 2007	3,000
Issue of consideration shares *(note 31(a))*	127,996
Issue of convertible notes *(note 27)*	369,750
Issue of promissory notes *(note 29)*	95,416
Total purchase consideration	599,555
Due to a shareholder assigned by Growth Gain	(49,073)
Net purchase consideration	550,482
Fair value of net assets acquired	530,667
Goodwill arising on acquisition *(note 16)*	19,815
Net cash outflow arising on acquisition	(3,393)

The goodwill is mainly attributable to the potential mining rights of BCF as explained in note 16 to the consolidated financial statements.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

(i) On 25 September 2008, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal of the entire equity interest of Kiu Hung International Enterprises Limited and its subsidiary, Fujian Putian Kiu Hung Light Industrial Co. Limited, at a total consideration of HK$2,000,000.

	2008 HK$'000
Net liabilities disposed:	
Property, plant and equipment	10,976
Prepaid land lease payments	1,897
Bank and cash balances	15
Prepayments and other receivables	10
Accrual and other payables	(193)
Current tax liabilities	(5)
Deferred tax liabilities *(note 30)*	(461)
Due to a fellow subsidiary	(5,681)
Borrowings	(7,955)
Net liabilities disposed:	(1,397)
Release of foreign currency translation reserve	(3,596)
Gain on disposal of subsidiaries *(note 7)*	6,993
Total consideration - satisfied by cash	2,000
Net cash inflow arising on disposal:	
Cash consideration received	2,000
Cash and cash equivalents disposed	(15)
	1,985

(ii) On 3 February 2008, the operation of a Company's subsidiary was ceased, foreign currency reserve of the subsidiary at the cessation date was HK$399,000 and the net gain on disposal is HK$25,000 (note 7).

35. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of reporting period (2008: HK$Nil).

36. CAPITAL COMMITMENTS

At 31 December 2009, the Group did not have any significant capital commitment.

37. LEASE COMMITMENTS

At 31 December 2009, the Group had total future minimum lease receivables and payables under non-cancellable operating leases falling due as follows:

	2009 HK$'000	2008 HK$'000
As lessor:		
Within one year	45	60
As lessee:		
Within one year	483	303
In the second to fifth years inclusive	319	21
	802	324

Operating lease payments represented rental payable by the Group for certain of its office. Leases are negotiated for an average term of one to two years and rental are fixed over the lease terms and do not include contingent rentals.

38. RELATED PARTY TRANSACTIONS

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

	2009 HK$'000	2008 HK$'000
Sales of goods to a jointly-controlled entity *(note a)*	5,435	7,202
Product development, sale and marketing services fee paid to a related company *(note b)*	1,184	1,478
Interest expenses paid to a related company *(note c)*	555	50
Interest expenses paid to a shareholder *(note d)*	69	–

Notes:

(a) A shareholder of the jointly-controlled entity is also the beneficial owner of 30% equity interest in the Company's subsidiary making the sales.

(b) The sole owner of the related company is also the director and beneficial owner of 49% (2008: 32%) equity interest in the Company's subsidiary paying for the services.

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

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

39. EVENTS AFTER THE REPORTING PERIOD

(a) On 18 January 2010, the Company and a placing agent entered into a placing agreement in respect of the placement of 180,000,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.339 per share. The placements of 180,000,000 ordinary shares were completed on 29 January 2010.

(b) On 24 February 2010, Strong Master Holdings Limited (the "Strong Master"), a wholly owned subsidiary of the Company and incorporated in the British Virgin Islands with limited liability, entered into a conditional sale and purchase agreement, as supplemented by a supplemental agreement dated 3 March 2010 (collectively the ("Acquisition Agreement"), with Wonder Return Limited (the "Wonder Return"), a company incorporated in the British Virgin Islands with limited liability, at a consideration of not more than HK$1,439,100,000, which will be satisfied by payment in cash, issue of the Company's new ordinary shares and issue of the Company's convertible notes.

Pursuant to the Acquisition Agreement, Strong Master has conditionally agreed with Wonder Return to acquire (i) the entire issued share capital of First Dean Holdings Limited (the "Target Company"), a company incorporated in the British Virgin Islands with limited liability and owned as to 100% by the Vendor; and (ii) all obligations, liabilities and debts owing or incurred by the Target Company and its subsidiaries to Wonder Return as at and after the completion of this acquisition (the "Completion"), whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2010.

Five Years Financial Summary

The following is a summary of the published consolidated results and assets and liabilities of the Group for the last five years prepared on the basis set out in notes (1) and (2) below:

Results

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
		(note 3)	*(note 3)*		
Turnover	**121,556**	133,357	111,189	96,578	67,528
(Loss)/Profit before taxation	**(62,677)**	(402,855)	(141,384)	2,577	(364)
Income tax (expense)/credit	**(1,988)**	150,144	20,035	(1,437)	323
(Loss)/Profit for the year	**(64,665)**	(252,711)	(121,349)	1,140	(41)
Attributable to:					
Equity holders of the Company	**(64,347)**	(253,080)	(121,145)	1,103	(41)
Minority interests	**(318)**	369	(204)	37	–
	(64,665)	(252,711)	(121,349)	1,140	(41)

Assets and Liabilities

	31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
		(note 3)	*(note 3)*		
Total assets	**886,362**	876,764	516,667	199,796	153,606
Total liabilities	**(554,925)**	(588,532)	(166,624)	(51,482)	(53,441)
	331,437	288,232	350,043	148,314	100,165
Equity attributable to equity holders of the Company	**329,804**	286,281	348,461	147,017	100,165
Minority interests	**1,633**	1,951	1,582	1,297	–
	331,437	288,232	350,043	148,314	100,165

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2008 and 2009 are set out on page 34 of this annual report.

(2) The consolidated statement of financial position as at 31 December 2008 and 31 December 2009 are set out on page 36 of the annual report.

(3) The details of the restatement for the years ended 31 December 2007 and 2008 are set out in note 3 to the consolidated financial statements.