僑雄國際控股有限公司
Kiu Hung International Holdings Limited

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

2007 ANNUAL REPORT 年報

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. HUI Kee Fung *(Chairman)*
Mr. HUI Ki Yau *(Chief Executive Officer)*
Madam HUI Hung Tan, Teresa

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. PENG Guanghui
Mr. KUNG King Ching, Conrad
Mr. TANG Rongzu

COMPANY SECRETARY

Mr. CHAN Kwok Yuen, Elvis, CA, CPA, FCCA

REGISTERED OFFICE

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KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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AUDITORS

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Certified Public Accountants
13th Floor
Gloucester Tower
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Hong Kong

COMPANY HOMEPAGE/WEBSITE

http://www.kiuhung.com

PRINCIPAL BANKERS

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Hong Kong

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Fujian
PRC

Industrial and Commercial Bank of China
Putian County Branch
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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CHAIRMAN'S STATEMENT

On behalf of the board of the directors (the "Board") of Kiu Hung International 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 2007.

RESULTS AND DIVIDENDS

For the financial year ended 31 December 2007, the Group recorded turnover and loss attributable to shareholders of approximately HK$111.2 million (2006: HK$96.6 million) and HK$8.2 million (2006: profit of HK$1.1 million), respectively. Basic loss per share for the year was HK0.2575 cent (2006: earnings per share of HK0.0382 cent). The Board does not recommend the payment of any final dividend in respect of the year.

BUSINESS REVIEW

Toys and Gifts

Looking back over the past year, the Group's toys and gifts business continues to be challenging. Although turnover has increased by approximately 15% from HK$96.6 million in 2006 to HK$111.2 million in 2007 as a result of the increase in the sales of decorative flags and garden products through the "Toland" Brand name, gross profit ratio has decreased from 36.8% in 2006 to 29.5% as a result of the surge in raw materials costs, rising inflation and the appreciation of Renminbi.

Coal Business

The Group actively seized opportunities to broaden its revenue base. During the year, the Group has completed the acquisition of the entire equity interest in Inner Mongolia Mingrunfeng Energy Co., Ltd. (內蒙古銘潤峰能源有限公司, "Mingrunfeng"). Mingrunfeng which is the holder of the exploration rights of the Guerbanhada Coal Mine located in Inner Mongolia of the PRC, which has estimated coal reserve of approximately 128.86 million tons of high quality thermal coal. To further increase the Group's total coal reserves, the Group has entered into an acquisition agreement on 16 August 2007 to acquire the entire equity interest in Tongliao City Heng Yuan Minging Co., Ltd. (通遼市恆源礦業有限公司, "Heng Yuan"). Heng Yuan which is the holder of (i) the exploration rights of the Banyanhushuo Coalfield located in Inner Mongolia, which has estimated coal reserve of approximately 434.76 million tons of high quality thermal coal and (ii) the mining rights of Huanghuashan Coal Mine which has estimated coal reserve of approximately 7.85 million tons of semi-anthracite coal. The acquisition of Heng Yuan has been completed subsequent to the balance sheet date on 28 March 2008.

The past year was both challenging and progressive for the Group. As a result of the efforts of our dedicated staff and management team, we have completed our first step to tap the coal energy industry, which paved the foundation for our future growth and diversification of our business operations.

CHAIRMAN'S STATEMENT

PROSPECTS

For the next few years, the Group will focus in the operation and development of the coal business. We expect that the Huanghuashan Coal Mine, the Guerbanhada Coal Mine and the Bayanhushuo Coalfield will commence operation by the third quarter of 2008, second quarter of 2009 and second quarter of 2010, respectively, and our shareholders' value will be benefited from these new operations. We also believe that the sales of our Olympic mascot toys will enhance our sales and profitability.

The continuous economic growth in China will lead to an increasing demand for natural resources and energy. The Group will continue to explore investment opportunities in the energy and natural resources industries that have earning potentials in order to transform the Company into an energy conglomerate with growth potential. I believe that our coal business will lead the Group into a high growth era and we are confident on 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.

HUI Kee Fung
Chairman

Hong Kong, 25 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the financial year ended 31 December 2007 (the "Year"), the Group recorded a turnover of approximately HK$111.2 million (2006: HK$96.6 million), representing an increase of approximately 15% as compared with the preceding year. The Group's loss attributable to shareholders for the Year was approximately HK$8.2 million (2006: profit of HK$1.1 million). Basic loss per share for the Year was HK0.2575 cent (2006: earnings per share of HK0.0382 cent).

DIVIDEND

The Board of directors do not recommend the payment of any final dividend in respect of the Year (2006: HK0.01 cent per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2008 to 28 May 2008, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the attendance at the annual general meeting of the Company to be held on 28 May 2008, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 20 May 2008.

BUSINESS AND OPERATIONAL REVIEW

During the Year, the Group engaged in the design, manufacture and sale of toys and gifts products and diversified into the mining and exploration of coal through the acquisition of Mingrunfeng. During the Year, the Group has experienced improved sales performance as a result of the increase in the sales of decorative flags and garden products through the "Toland" brand name. Nevertheless, gross profit ratio of the Group decreased from 36.8% in 2006 to 29.5% in 2007 as a result of the surge in raw materials costs, rising inflation and the appreciation of Renminbi.

During the Year, administrative expenses of the Group increased by approximately HK$4.7 million from approximately HK$25.5 million for 2006 to approximately HK$30.2 million for 2007. The overall increase in administrative expenses was a combined result of the effects of inflation, the expansion of the Group's business operations and the additional administrative expenses incurred by the Group's coal business as Mingrunfeng still has not commenced the exploitation of its proven reserves during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had cash and bank balances of approximately HK$70.6 million (2006: HK$85.2 million) as at the balance sheet date. The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, of which approximately 89% (2006: 75%) bore interest at fixed lending rate. At 31 December 2007, the Group's bank and other borrowings amounted to approximately HK$33.3 million (2006: HK$34.8 million), out of which approximately 96% (2006: 95%) was repayable within one year. The debt/equity ratio of the Group calculated as a ratio of total bank and other borrowings to total equity was approximately 7% as at 31 December 2007 (2006: 23%). Net current assets as at 31 December 2007 was approximately HK$42.5 million (2006: HK$64.8 million) and the current ratio was approximately 170% (2006: 241%). 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 2007, certain land use rights, buildings and leasehold land and buildings held by the Group with carrying values of approximately HK$1.8 million, HK$6.1 million and HK$10.2 million, respectively, were pledged to secure general banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

On 16 August 2007, the Group entered into an acquisition agreement with Gold Dynasty Investments Limited ("Gold Dynasty") to acquire the entire share capital of Lucky Dragon Resources Limited ("Lucky Dragon") at a total consideration of HK$840 million (subject to certain adjustments). HK$3 million has been paid as deposit to Gold Dynasty on 16 August 2007. For the remaining balance of HK$837 million (subject to certain adjustments), the Group has to pay HK$157 million by cash, HK$420 million by the allotment and issue of 600 million consideration shares at an issue price of HK$0.7 per share and HK$260 million by the issue of convertible notes with a conversion price of HK$0.7 per conversion share upon the completion of the acquisition.

The acquisition has been completed subsequent to the balance sheet date on 28 March 2008. On 28 March 2008, (i) 600 million ordinary shares, (ii) convertible notes with principal amount of approximately HK$254,065,000 which is convertible into 362,949,764 conversion shares at a conversion price of HK$0.7 per conversion share and (iii) promissory note in the amount of approximately HK$95,416,000 have been issued to Gold Dynasty as the consideration for the acquisition.

As at 31 December 2007, the Group did not have any contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS

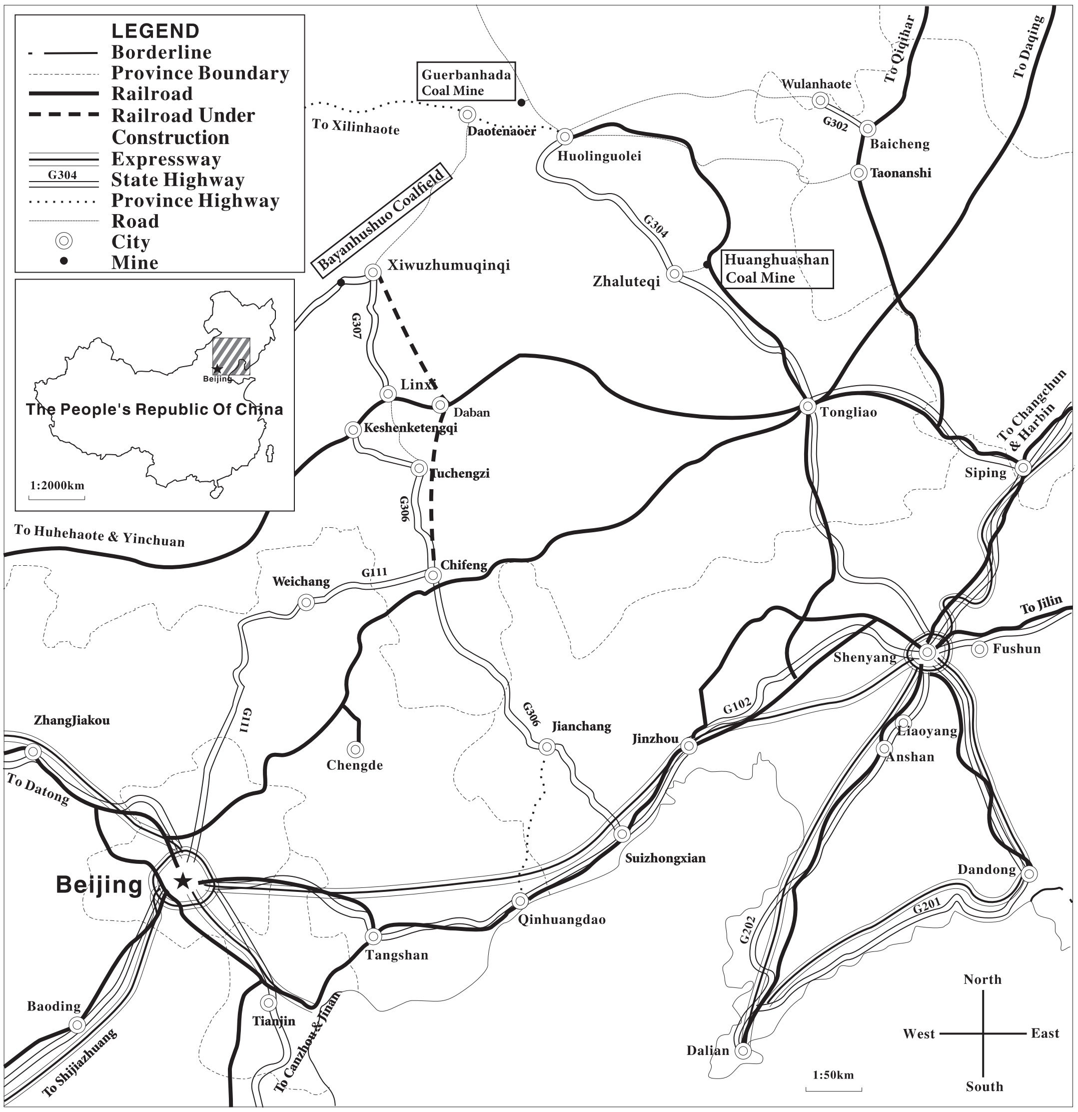
During the Year, the Group has completed the acquisition of the entire equity interest in Mingrunfeng. Mingrunfeng is the holder of the exploration rights of the Guerbanhada Coal Mine located in Inner Mongolia of the PRC. The Guerbanhada Coal Mine has a site area of approximately 24.91 square kilometres and is located 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 resource 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 detailed stage of exploration is the final stage of exploration for coal mines. The current at-pit market price of the coal expected to be extracted from the Guerbanhada Coal Mine is approximately RMB180 per ton. Further details of the acquisition were set out in the Company's circular dated 30 March 2007.

On 16 August 2007, the Group entered into the Acquisition Agreement to acquire the entire issued share capital of Lucky Dragon at a total consideration of HK$840 million (subject to certain adjustments). Lucky Dragon owns the entire equity interest in Heng Yuan which in turn owns (i) the mining rights of the Huanghuashan Coal Mine and (ii) the exploration rights of the Bayanhushuo Coalfield (i.e. Xi Meng Coal Mine). Details of the Acquisition were set out in the Company's circular dated 31 January 2008. Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia in the PRC. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, the Huanghuashan Coal Mine has an estimated coal resource of approximately 7.85 million tons of semi-anthracite coal. The current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB360 per ton (pre-washing) and RMB750-800 per ton (post-washing).

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. The current at-pit market price of the coal expected to be extracted from the Bayanhushuo Coal Mine is approximately RMB210 per ton.

MANAGEMENT DISCUSSION AND ANALYSIS

LOCATION OF OUR THREE COAL PROJECTS



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS

We believe our newly diversified coal business is important for the Group as it enable us to tap the energy and natural resources business and to enter into a diversified and high growth development stage. We are positive about the prospect of the coal mining industry in the PRC. As coal accounted for approximately 67% 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. Upon completion of the acquisition of Lucky Dragon, the aggregate amount of coal reserves of the Group will be expanded to over 570 million tons. Capitalising on a stable and well-established industrial business foundation, we will tap the energy and natural resources business with high growth potential in order to maximise our Shareholders' value.

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

CAPITAL STRUCTURE AND USE OF PROCEEDS

As at 31 December 2007, the capital structure of the Company is constituted of 3,406,590,600 ordinary shares of HK$0.02 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options to subscribe for shares in the Company. During the Year, 55,933,600 new shares have been issued by the Company as a result of the exercise of share options by the option holders. During the Year, 3,300,000 new share options have been granted under the share option scheme adopted by the Company with an exercise price of HK$0.74 per share. As at 31 December 2007, 68,108,800 share options remained outstanding. Subsequent to the balance sheet date and up to the date of this report, 1,529,200 share options have been exercised by the option holders.

During the Year, 362,000,000 new shares have been issued by the Company as consideration shares for the acquisition of Mingrunfeng. Further details of the acquisition were set out in the Company's circular dated 30 March 2007.

The net proceeds from the Company's open offer of new shares on 17 August 2006 (the "Open Offer") amounted to approximately HK$37 millions. The proceeds were applied in accordance with he proposed application set out in the Company's prospectus dated 31 July 2006, as follows:

– approximately HK$25 million was used for diversified investments in the coal industry; and

– approximately HK$10 million was used as general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the net proceeds from the Company's issue of new shares at the time of its initial public offering on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 January 2001 (the "IPO") amounted to approximately HK$43 million. The proceeds were applied in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

– approximately HK$5 million was used for developing new models and new products;

– approximately HK$5 million was used for the acquisitions of new machinery and auxiliary equipment;

– approximately HK$10 million was used for establishing retail outlets and developing distribution channels in major cities in the PRC; and

– approximately HK$18 million was used as general working capital of the Group.

The Group has placed the unused balance of the net proceeds from the Open Offer and the IPO with licensed banks in Hong Kong and the PRC. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and its shareholders.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2007, the Group had a total of 748 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. HUI Kee Fung, aged 47, is the Chairman of the Company. He is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Hui 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 Vice-Chairman of Putian Foreign Investors' Association in Fujian, 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, an Executive Director of the China Toys Association, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Deputy Managing Director of The Fujian Putian University in the PRC, the Honorary Dean of the Xiong Xing Business Administration College in The Fujian Putian University in the PRC and an Honorary Citizen of Putain, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. HUI Ki Yau, aged 46, is the Chief Executive Officer of the Company. 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, 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 39, is an Executive Director of the Company and is responsible for the financial affairs, overall management and purchasing affairs of the Group. She has over 15 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.

Independent Non-Executive Directors

Mr. Peng Guanghui, aged 44, 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.

Mr. Kung King Ching, Conrad, aged 43, is the General Manager of Tat Shing Machinery Factory in Hong Kong and a director of Putian Hua Gang Industrial Development Co., Ltd. in the People's Republic of China. Mr. Kung holds a Bachelor of Administration Degree from the University of Regina in Canada and has over 20 years of experience in the trading and manufacturing industries.

Mr. TANG Rongzu, aged 64, is the Deputy General Manager of Putian City North Coast Wood Products Co., Ltd. in the People's Republic of China. Mr. Tang had also worked as the General Manager of Putian City Processing and Assembly with Supplied Materials and Parts Company and the Chief Executive of Putian City Customs Declaration Company for over 15 years. Mr. Tang has over 20 years of experience in the trading industry.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. CHAN Kwok Yuen, Elvis, aged 35, is the Chief Financial Officer, Qualified Accountant and Company Secretary of the Company and is responsible for the accounting, financial and secretarial affairs of the Group. Mr. Chan is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Chartered Accountant of the Institute of Chartered Accountants in England and Wales, a Fellow Member of the Chartered Association of Certified Accountants, a Member of the CFA Institute and a Member of the Hong Kong Society of Financial Analysts. Mr. Chan holds a bachelor degree in commerce from Queen's University of Canada and has over 10 years of experience in the field of accounting and finance. Mr. Chan is currently pursuing an EMBA in Coal Industry and an EMBA in Private Equity and Venture Capital Investment at Tsinghua University in the PRC.

Mr. YANG Runzhi, aged 53, is the Managing Director of Inner Mongolia Mingrunfeng Energy Co., Ltd.. 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. (北京中煤恆潤有限公司, 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. YING Chengping, aged 50, is the Chief Engineer in Coal Geology and Exploration. He is a graduate of Liaoning Technical University and has worked as the Senior Geological Engineer of the China General Bureau of Coalfield Geology and the Deputy Chief and Chief Engineer of the 155 Exploration Team in the Northeast Bureau of Coalfield Geology. He has over 25 years of experience in coal geology and exploration and has compiled over 30 coalfield exploration reports in the past.

Mr. SONG Yuzhu, aged 47, is the Chief Engineer in Mining Operation. He is a graduate of China College of Mining and Technology and has over 25 years of experience in coal mine design and operation. He has also worked as the Deputy Chief and Chief Engineer of an open-pit mine for the Huolinehe Coal Group in Inner Mongolia, the PRC.

Mr. HUANG Sheng Hai, aged 42, is the manager of the Group's production and material control department and is responsible for production and purchasing management. Mr. Huang holds a bachelor degree in medical science from the Medical School of Fujian Province, the PRC. He joined the Group in April 1992.

Madam TI Yuk Fun, Joanne, aged 41, is the marketing officer of the Group and is responsible for sales and marketing. Madam Ti holds a bachelor degree in commerce from University of Windsor of Canada. She joined the Group in March 1996 and has over 10 years of experience in the field of sales and marketing.

Madam LI Yim Hung, aged 39, is the officer of the product design and development department of the Group and is responsible for product design and development. She joined the Group in July 1996 and has over 15 years of experience in the field of product design and development.

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 2007.

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 19 to the financial statements. During the year, the Group has completed the acquisition of Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng", formerly known as "Beijing Mingrunfeng Trading Co., Ltd."), which is in line with the Group's strategy to diversify its business into the exploration and mining of coal resources.

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 2007 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 30.

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

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**111,189**	96,578	67,528	80,674	84,046
(Loss)/Profit before taxation	**(7,012)**	2,577	(364)	(12,732)	(3,425)
Taxation	**(1,408)**	(1,437)	323	790	169
(Loss)/Profit for the year	**(8,420)**	1,140	(41)	(11,942)	(3,256)
Attributable to:					
Equity holders of the Company	**(8,216)**	1,103	(41)	(11,888)	(3,254)
Minority interests	**(204)**	37	–	(54)	(2)
	(8,420)	1,140	(41)	(11,942)	(3,256)

ASSETS AND LIABILITIES

	31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**514,976**	199,796	153,606	166,249	175,051
Total liabilities	**(65,881)**	(51,482)	(53,441)	(69,084)	(66,832)
	449,095	148,314	100,165	97,165	108,219
Equity attributable to equity holders of the Company	**447,513**	147,017	100,165	97,165	108,165
Minority interests	**1,582**	1,297	–	–	54
	449,095	148,314	100,165	97,165	108,219

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2006 and 2007 are set out on page 28 of this annual report.

(2) The consolidated balance sheets as at 31 December 2006 and 31 December 2007 are as set out on page 29 of the annual report.

REPORT OF THE DIRECTORS

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 16 and 18 to the financial statements, respectively. Details of the Group's investment property is set out in note 18 to the financial statement.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2007 are set out in note 31 to the 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 32, 33 and 45.3 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company had distributable reserves of approximately HK$460,111,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the capital reserve and share premium of the Company of HK$125,161,000 and HK$319,794,000, respectively, at 31 December 2007 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 totalling approximately HK$1,000.

REPORT OF THE DIRECTORS

RETIREMENT BENEFITS SCHEMES AND COSTS

Details of the Group's retirement benefits schemes and costs charged to the income statement for the year are set out in notes 3 and 40 to the financial statements, respectively.

In the opinion of the directors, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, as at 31 December 2007.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 48% of the total sales for the year and sales to the largest customer included therein accounted for approximately 25%. Purchases from the Group's five largest suppliers accounted for approximately 33% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 11%.

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. Hui Ki Yau ***(Chief Executive Officer)***
Ms. Hui Hung Tan, Teresa

Independent non-executive directors:
Mr. Peng Guanghui
Mr. Kung King Ching, Conrad
Mr. Tang Rongzu

In accordance with article 87 of the Company's articles of association, Madam Hui Hung Tan, Teresa and Mr. Peng Guanghui, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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.

REPORT OF THE DIRECTORS

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 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 December 2000 and shall continue thereafter for successive terms of one year, which may be terminated by either party thereto by giving to the other six 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.

DIRECTORS' INTERESTS IN CONTRACTS

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 2007, 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 Directors	Capacity	Number of Shares	Approximate shareholding
Hui Kee Fung	Interest of a controlled corporation (note)	1,567,500,000 (L)	46.01%
Hui Ki Yau	Interest of a controlled corporation (note)	1,567,500,000 (L)	46.01%
Hui Hung Tan, Teresa	Not applicable	–	–

L: Long Position

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Note: The shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

Save as disclosed above, as at the 31 December 2007, 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.

SHARE OPTION SCHEME *(Continued)*

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:

	Number of share options					
Grantee	**Outstanding at 1 January 2007**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 31 December 2007**	**Exercise price**
Employees	117,120,000	–	(53,293,600)	(217,600)	63,608,800	HK$0.1016
	–	3,300,000	–	–	3,300,000	HK$0.7400
	117,120,000	3,300,000	(53,293,600)	(217,600)	66,908,800	
Consultant	3,840,000	–	(2,640,000)	–	1,200,000	HK$0.1016
	120,960,000	**3,300,000**	**(55,933,600)**	**(217,600)**	**68,108,800**	

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2007, 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:

	Number of	Capacity		Approximate
Name of Shareholder	**Shares held**	**Beneficial**	**Other**	**shareholding**
Legend Win Profits Limited (note)	1,567,500,000 (L)	1,567,500,000	–	46.01%
Yu Won Kong, Dennis	344,500,000 (L)	344,500,000	–	10.11%

L: Long Position

Note:

The Shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the connected and related party transactions of the Group during the year are set out in note 41 to the financial statements. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transactions.

The Company has received a letter from the auditors confirming that the sales of goods by the Group to Marketing Resource Group, Inc., a jointly controlled entity of the Group, during the year as disclosed in note 41(i) of the financial statements (i) have received the approval of the Company's board of directors; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions; and (iv) have not exceeded the cap disclosed in the announcement dated 29 October 2007 in relation to the continuing connected transactions.

REPORT OF THE DIRECTORS

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 22 to 25.

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.

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 45 to the financial statements.

AUDITORS

Grant Thornton 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
HUI Kee Fung
Chairman

Hong Kong
25 April 2008

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2007, 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 2007.

BOARD OF DIRECTORS

The Board currently comprises three executive directors and three 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.

CORPORATE GOVERNANCE REPORT

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 2007. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2007 is set out below:

	Attendance/Number of Meetings			
Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive Director				
Mr. Hui Kee Fung *(Chairman)*	12/12	N/A	1/1	1/1
Mr. Hui Ki Yau *(Chief Executive Officer)*	12/12	N/A	N/A	N/A
Madam Hui Hung Tan, Teresa	12/12	N/A	N/A	N/A
Independent Non-Executive Director				
Mr. Peng Guanghui	12/12	3/3	1/1	1/1
Mr. Kung King Ching, Conrad	12/12	3/3	1/1	1/1
Mr. Tang Rongzu	12/12	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 page 11.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Hui Ki Yau 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 page 11.

CORPORATE GOVERNANCE REPORT

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 2006. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Tang Rongzu – *Chairman*
Mr. Peng Guanghui
Mr. Kung King Ching, Conrad
Mr. Hui Kee Fung

Directors' remunerations for the year are disclosed in note 15 to the 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 2007. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Kung King Ching, Conrad – *Chairman*
Mr. Peng Guanghui
Mr. Tang Rongzu
Mr. Hui Kee Fung

CORPORATE GOVERNANCE REPORT

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 2007. All committee members are independent non-executive directors. Its current members include:

Mr. Peng Guanghui – *Chairman*
Mr. Kung King Ching, Conrad
Mr. Tang Rongzu

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 unauthorized 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$1,900,000, all of which was paid/payable to the Company's auditors, Messrs Grant Thornton. In addition, professional fee of HK$72,000 was payable by the Group for the taxation services rendered by Grant Thornton.

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 Auditors' Report on page 26.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Kiu Hung International Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kiu Hung International Holdings Limited (the "Company") set out on pages 28 to 116, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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 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.

Auditors' 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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.

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of its subsidiaries (the "Group") as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 23 to the financial statements which indicates that the Group recorded goodwill of HK$303,590,000 as at 31 December 2007. The Group is undergoing various fund raising activities to finance the capital requirements for the development of the mine and future mining operations. The ultimate results of the fund raising activities cannot presently be determined, and the carrying amount of goodwill and the investment in the mining business arising from the acquisition of mining business may be affected should the Group be unable to source the necessary finance for the capital requirements.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

25 April 2008

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5	**111,189**	96,578
Cost of sales		**(78,391)**	(61,046)
Gross profit		**32,798**	35,532
Other income	7	**8,070**	5,297
Distribution costs		**(12,237)**	(9,197)
Administrative expenses		**(30,220)**	(25,500)
Other operating expenses		**(1,551)**	(1,024)
Operating (loss)/profit	8	**(3,140)**	5,108
Finance costs	9	**(3,773)**	(2,576)
Share of (loss)/profit of a jointly controlled entity	20	**(99)**	45
(Loss)/Profit before income tax		**(7,012)**	2,577
Income tax expense	10	**(1,408)**	(1,437)
(Loss)/Profit for the year		**(8,420)**	1,140
Attributable to:			
Equity holders of the Company	11	**(8,216)**	1,103
Minority interests		**(204)**	37
(Loss)/Profit for the year		**(8,420)**	1,140
Proposed final dividend	12	**–**	299
		HK cent	HK cent
(Loss)/Earnings per share for results attributable to the equity holders of the Company during the year	13		
– Basic		**(0.2575)**	0.0382
– Diluted		**N/A**	0.0377

CONSOLIDATED BALANCE SHEET

as at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	**57,990**	63,877
Prepaid land lease payments	*17*	**6,450**	6,213
Investment property	*18*	**400**	400
Interest in a jointly controlled entity	*20*	**524**	623
Goodwill	*23*	**303,590**	–
Other intangible assets	*24*	**1,789**	2,424
Exploration and evaluation assets	*25*	**38,346**	–
Deposit for acquisition of a prospective investee company	*38*	**3,000**	15,000
Deferred tax assets	*35*	**–**	551
		412,089	89,088
Current assets			
Inventories	*26*	**9,860**	10,227
Trade and bills receivable	*27*	**9,108**	9,105
Prepayment, deposits and other receivables		**9,548**	1,716
Amount due from a jointly controlled entity	*20*	**3,443**	1,097
Amount due from a related company	*21*	**–**	2,900
Tax recoverable		**85**	153
Financial assets at fair value through profit or loss	*28*	**286**	286
Cash at banks and in hand	*29*	**70,557**	85,224
		102,887	110,708
Current liabilities			
Trade and bills payable	*30*	**9,256**	7,632
Other payables and accruals	*30*	**17,864**	4,902
Amount due to a shareholder	*22*	**282**	–
Provision for tax		**1,051**	287
Borrowings	*31*	**31,981**	33,066
		60,434	45,887
Net current assets		**42,453**	64,821
Total assets less current liabilities		**454,542**	153,909
Non-current liabilities			
Borrowings	*31*	**1,284**	1,766
Deferred tax liabilities	*35*	**4,163**	3,829
		5,447	5,595
Net assets		**449,095**	148,314
EQUITY			
Equity attributable to Company's equity holders			
Share capital	*32*	**68,132**	59,773
Reserves	*34*	**379,381**	86,945
Proposed final dividend	*12*	**–**	299
		447,513	147,017
Minority interests		**1,582**	1,297
Total equity		**449,095**	148,314

Hui Ki Yau
Director

Hui Hung Tan, Teresa
Director

BALANCE SHEET

as at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*19*	**403,594**	105,080
Current assets			
Prepayment and other receivables		**1,378**	216
Amount due from a subsidiary	*19*	**115,717**	110,183
Cash at banks		**11,444**	12,736
		128,539	123,135
Current liabilities			
Other payables and accruals		**3,890**	356
Net current assets		**124,649**	122,779
Total assets less current liabilities		**528,243**	227,859
EQUITY			
Share capital	*32*	**68,132**	59,773
Reserves	*34*	**460,111**	167,787
Proposed final dividend	*12*	**–**	299
Total equity		**528,243**	227,859

Hui Ki Yau
Director

Hui Hung Tan, Teresa
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
(Loss)/Profit before income tax		**(7,012)**	2,577
Adjustments for:			
Depreciation of property, plant and equipment		**6,478**	6,654
Annual charges of prepaid land lease payments		**159**	147
Amortisation of other intangible assets		**635**	190
Provision for slow moving inventories		**1,662**	804
Bad debts written-off		**146**	376
Write off of deposits received		**–**	(912)
Revaluation surplus on leasehold land and buildings		**(661)**	(312)
Write off of property, plant and equipment		**–**	1
Loss/(Gain) on disposal of property, plant and equipment		**7**	(9)
Share of loss/(profit) of a jointly controlled entity		**99**	(45)
(Gain)/Loss on disposal of a subsidiary/subsidiaries	*36(b)*	**(1,322)**	327
Share-based compensation expenses			
– employee compensation expenses		**3,361**	4,614
– consultancy fee		**68**	205
Interest expenses		**3,773**	2,576
Interest income		**(824)**	(1,158)
Operating profit before working capital changes		**6,569**	16,035
Increase in inventories		**(1,295)**	(3,422)
(Increase)/Decrease in trade and bills receivable		**(149)**	3,268
Increase in prepayment, deposits and other receivables		**(954)**	(247)
Increase in amount due from a jointly controlled entity		**(2,346)**	(1,097)
(Decrease)/Increase in trust receipt loans		**(1,544)**	1,798
Increase/(Decrease) in trade and bills payable		**1,624**	(3,226)
(Decrease)/Increase in other payables and accruals		**(1,715)**	159
Cash generated from operations		**190**	13,268
Interest paid		**(2,369)**	(2,561)
Interest paid in finance lease payments		**–**	(15)
Income tax refunded/(paid)		**62**	(74)
Dividend paid		**(299)**	–

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash (used in)/generated from operating activities		**(2,416)**	10,618
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(3,217)**	(1,184)
Proceeds from disposal of property, plant and equipment		**7**	34
Payments to acquire other intangible assets		**–**	(2,614)
Capital contribution to a jointly controlled entity		**–**	(578)
Acquisition of subsidiaries, net of cash acquired	*36(a)*	**(426)**	–
Proceeds from disposal of a subsidiary, net of cash disposed of	*36(b)*	**997**	–
Decrease in amount due from a related company		**2,900**	5,232
Deposit paid for acquisition of a prospective investee company	*38*	**(3,000)**	(15,000)
Interest received		**824**	1,158
Net cash used in investing activities		**(1,915)**	(12,952)
Cash flows from financing activities			
Proceeds from open offer of shares issued		**–**	38,742
Proceeds from shares issued upon exercise of share options		**5,683**	–
Payment in relation to the cost of open offer of shares issued		**–**	(1,498)
New bank and other loans		**14,422**	26,522
Repayment of bank and other loans		**(29,441)**	(26,293)
Repayment of capital element of finance lease payables		**(48)**	(96)
Capital contribution from minority interests		**–**	1,260
Net cash (used in)/generated from financing activities		**(9,384)**	38,637
Net (decrease)/increase in cash at banks and in hand		**(13,715)**	36,303
Cash and cash equivalents at 1 January		**85,224**	48,034
Effect of foreign exchange rate changes, on cash held		**(952)**	887
Cash and cash equivalents at 31 December		**70,557**	85,224

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	Equity attributable to equity holders of the Company				Proposed final dividend	Minority interests	Total equity
	Share capital	Other reserves *(note 34)*	Retained profits	Total			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2005 and 1 January 2006	44,277	14,595	41,293	100,165	–	–	100,165
Revaluation surplus on properties	–	1,064	–	1,064	–	–	1,064
Deferred tax liability arising on revaluation of properties	–	(111)	–	(111)	–	–	(111)
Translation adjustments	–	2,733	–	2,733	–	–	2,733
Net income recognised directly in equity	–	3,686	–	3,686	–	–	3,686
Profit for the year	–	–	1,103	1,103	–	37	1,140
Total recognised income and expense for the year	–	3,686	1,103	4,789	–	37	4,826
Acquisition of subsidiaries	–	–	–	–	–	1,260	1,260
Proceeds from open offer of new shares issued, net *(note 32)*	15,496	21,748	–	37,244	–	–	37,244
Share-based compensation *(note 33)*	–	4,819	–	4,819	–	–	4,819
2006 proposed final dividend *(note 12)*	–	–	(299)	(299)	299	–	–
At 31 December 2006 and 1 January 2007	59,773	44,848	42,097	146,718	299	1,297	148,314
Revaluation surplus on properties	–	991	–	991	–	–	991
Deferred tax liability arising on revaluation of properties	–	(373)	–	(373)	–	–	(373)
Translation adjustments	–	4,196	–	4,196	–	–	4,196
Net income recognised directly in equity	–	4,814	–	4,814	–	–	4,814
Loss for the year	–	–	(8,216)	(8,216)	–	(204)	(8,420)
Total recognised income and expense for the year	–	4,814	(8,216)	(3,402)	–	(204)	(3,606)
Issue of consideration shares *(note 36(a))*	7,240	287,845	–	295,085	–	489	295,574
Issue on shares upon exercise of share options	1,119	4,564	–	5,683	–	–	5,683
Share-based compensation *(note 33)*	–	3,429	–	3,429	–	–	3,429
Payment for final dividend	–	–	–	–	(299)	–	(299)
Release on forfeiture of share options	–	(5)	5	–	–	–	–
At 31 December 2007	**68,132**	**345,495**	**33,886**	**447,513**	**–**	**1,582**	**449,095**

Details of other reserves are set out in note 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

1. GENERAL INFORMATION

Kiu Hung International Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in the Cayman Islands. The address of the Company's registered office is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fotan, Shatin, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture, sale of a wide range of toys and decorative gift items and exploration and mining of natural resources. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements.

The acquisition of Inner Mongolia Mingrunfeng Energy Co., Ltd. (formerly known as "Beijing Mingrunfeng Trading Co., Ltd.") ("Mingrunfeng") described in note 36(a) is in line with the Group's strategy to diversify its business into the exploration and mining of natural resources.

The financial statements on pages 28 to 116 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC) Interpretation") issued by the Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 25 April 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSS

In the current year, the Group has adopted the following new and amended HKFRSs which are first effective for the Group's accounting period beginning on 1 January 2007 and are relevant to the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment

2. ADOPTION OF NEW OR AMENDED HKFRSS *(Continued)*

The adoption of these new or amended HKFRSs did not result in significant changes to the Group's or the Company's accounting policies but gave rise to additional disclosures. The principal effects of adopting these new and amended HKFRSs are as follows:

2.1 HKAS 1 (Amendment) – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 44 to the financial statements.

2.2 HKFRS 7 – Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risk arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

2.3 HK(IFRIC) – Interpretation 8 – Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods and services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. This interpretation has had no effect on these financial statements.

2.4 HK(IFRIC) – Interpretation 9 – Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with assessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

2. ADOPTION OF NEW OR AMENDED HKFRSS *(Continued)*

2.5 HK(IFRIC) – Interpretation 10 – Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial assets carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.6 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment: Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC) Interpretation 12	Service Concession Arrangements[4]
HK(IFRIC) Interpretation 13	Customer Loyalty Programmes[5]
HK(IFRIC) Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties, leasehold land and buildings, buildings and financial instruments classified as financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4 to the financial statements.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Associates and joint ventures

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiary nor investment in a joint venture.

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

In consolidated financial statements, investment in associates and jointly controlled entities are initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interests in the associate and jointly controlled entities are carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's or jointly controlled entity's net assets less any identified impairment loss. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate or the jointly controlled entity for the year, including any impairment loss on goodwill relating to the investment in associate or jointly controlled entity recognised for the year.

When the Group's share of losses in an associate or a jointly controlled entity equals or exceeds its interest in the associate or the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Associates and joint ventures *(Continued)*

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates or jointly controlled entities. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate or jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.12) of the associate or the jointly controlled entity and its carrying amount.

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, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's or the jointly controlled entity's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates and the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate or jointly controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's or the jointly controlled entity's accounting policies to those of the Group when the associate's or the jointly controlled entity's financial statements are used by the Group in applying the equity method. In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less any impairment losses. The results of associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

3.5 Property, plant and equipment

Buildings and land held under operating leases and buildings thereon (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Property, plant and equipment *(Continued)*

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

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

	Depreciation rate	Residual value
Leasehold land and buildings	2%-5%	0%
Buildings	5%	0%
Leasehold improvements	10%	0%
Plant and machinery	10%	10%
Moulds	10-20%	0-10%
Furniture, fixtures and equipment	10-20%	0-10%
Motor vehicles	20%	0-10%

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

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

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

3.7 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Goodwill

Set out below are the accounting policies on goodwill arising from acquisition of subsidiaries. Accounting policies for goodwill arising on acquisition of associate and joint venture is set out in note 3.4 to the financial statements.

Goodwill represents the payment made by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified or separately recognised and which fair value cannot be measured reliably. It is the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the investment is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.12).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the consolidated income statement.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.9 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3.12 to the financial statements. Amortisation commences when the intangible assets are available for use.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Intangible assets (other than goodwill) and research and development activities *(Continued)*

Research and Development costs

Cost associated with research activities are expensed in the income statement as they occur.

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

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

All other development costs are expensed as incurred.

3.10 Inventories

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

3.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Impairment of assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.5 for details). The recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.6); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 3.5). For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Leases *(Continued)*

(iii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iv) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.14 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets are classified into the following categories:

– financial assets at fair value through profit or loss

– loans and receivables

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial assets *(Continued)*

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

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

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Financial assets *(Continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

A provision for impairment on loans and receivables carried at amortised cost 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 the loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loans and receivables are impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hands, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.16 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

Dividend is recognised when the right to receive payment is established.

3.18 Borrowing costs

All borrowing costs are expensed as incurred.

3.19 Retirement benefit schemes and short-term employee benefits

(i) Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Retirement benefit schemes and short-term employee benefits *(Continued)*

(ii) *Retirement benefits schemes (Continued)*

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

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

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

3.20 Share-based compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees, directors, shareholders, suppliers and customers of the Group and any other parties having contribution or may contribute to the development of the Group.

All services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Share-based compensation *(Continued)*

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (equity compensation reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in equity compensation reserve will be transferred to retained profits.

3.21 Financial liabilities

The Group's financial liabilities include bank and trust receipt loans, other loans, trade and other payable and finance lease liabilities. They are included in balance sheet line items as borrowings under current or non-current liabilities, trade and bills payable and other payables and accruals.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Financial liabilities *(Continued)*

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (See note 3.13).

Borrowings

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

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

Trade and bills payable and other payables and accruals

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

3.22 Provisions and contingent liabilities

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

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

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 of economic benefits 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 of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Provisions and contingent liabilities *(Continued)*

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3.23 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.24 Segment reporting

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.24 Segment reporting *(Continued)*

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

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

Asset, except for trade receivables, are attributed to the segments based on the location of the customers.

3.25 Related parties

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

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

(b) the party is an associate of the Company/Group;

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

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.26 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of leasehold land and buildings, buildings and investment property

The leasehold land and buildings, buildings and investment property of the Group were stated at fair value in accordance with the accounting policy state in note 3.5 and 3.6 respectively. The fair value of the leasehold land and buildings, buildings and investment property are determined by an independent qualified professional surveyor, as set out in note 16 and note 18 to the financial statements respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

(ii) Valuation of share options granted

The fair value of share options granted is determined by an independent qualified professional valuer, as set out in note 33 to the financial statements. Some of the significant estimates and assumptions made by the valuers include the estimated life of share options granted to be ten years based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes nil future dividends. Details of the inputs are set out in note 33 to the financial statements.

(iii) Net realisable value of inventories

Management of the Group reviews the inventory listing on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. Management estimates the net realisable value for such inventories based primarily on the latest prices and current market conditions.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(iv) Impairment of trade and other receivables

Management of the Group determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market condition. Management reassess the impairment of trade and other receivables at the balance sheet date.

(v) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.12 to the financial statements. The recoverable amount of a cash-generating unit has been determined based on value-in-use calculations and scenario analysis. These calculations require the use of estimates of the future cash flows expected to arise from the cash-generating units and the suitable discount rates in order to calculate the present value. Details of the key assumptions and estimates used in the calculation of the present value are disclosed in note 23 to the financial statements.

(vi) Depreciation

The Group depreciates property, plant and equipment on a straight-line method over the estimated useful lives, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(vii) Current taxation and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

5. REVENUE AND TURNOVER

Revenue which is also the Group's turnover represents total invoiced value of goods supplied.

6. SEGMENT INFORMATION

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

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

For the year ended 31 December 2006, the Group's business segments are separated into the toys segment and the decorative gift items segment. In current year, the management believes that combining these two segments would be useful to users of the financial statements.

Summary details of business segments are as follows:

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

(ii) the exploration and mining operation segment included exploration and mining of natural resources.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. Assets, except for trade receivable, are attributed to the segments based on the location of the assets. Trade receivable is attributed to the segments based on the location of the customers.

There were no intersegment sales and transfers between segments.

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

	Exploration and mining		Toys and decorative gift items		Unallocated		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**–**	–	**111,189**	96,578	**–**	–	**111,189**	96,578
Other revenue	**–**	–	**1,288**	602	**–**	–	**1,288**	602
Total segment revenue	**–**	–	**112,477**	97,180	**–**	–	**112,477**	97,180
Segment results	**(3,166)**	–	**(1,464)**	2,006	**–**	–	**(4,630)**	2,006
Interest, rental income and unallocated other income							**6,782**	5,297
Unallocated expenses							**(5,292)**	(2,195)
Operating (loss)/profit							**(3,140)**	5,108
Finance costs							**(3,773)**	(2,576)
Share of (loss)/profit of a jointly controlled entity							**(99)**	45
(Loss)/Profit before income tax							**(7,012)**	2,577
Income tax expense							**(1,408)**	(1,437)
(Loss)/Profit for the year							**(8,420)**	1,140
Segment assets	**346,362**	–	**136,997**	148,728	**31,093**	50,445	**514,452**	199,173
Interest in a jointly controlled entity	**–**	–	**524**	623	–	–	**524**	623
Total assets							**514,976**	199,796
Segment liabilities	**24,534**	–	**32,942**	43,189	**8,405**	8,293	**65,881**	51,482
Total liabilities							**65,881**	51,482
Other information:								
Depreciation and amortisation	**76**	–	**6,577**	6,475	**619**	516	**7.272**	6,991
Other non-cash expenses	**–**	–	**114**	703	**32**	–	**146**	703
Capital expenditure	**37,869**	–	**2,202**	3,798	**–**	–	**40,071**	3,798

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

	PRC (including Hong Kong)		North America[1]		European Union[2]		Others[3]		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**5,901**	2,890	**82,783**	70,679	**16,939**	19,992	**5,566**	3,017	**111,189**	96,578
Other revenue	**1,288**	602	**–**	–	**–**	–	**–**	–	**1,288**	602
Total segment revenue	**7,189**	3,492	**82,783**	70,679	**16,939**	19,992	**5,566**	3,017	**112,477**	97,180
Segment results	**(3,244)**	60	**(1,090)**	1,468	**(223)**	415	**(73)**	63	**(4,630)**	2,006
Other segment information:										
Segment assets	**502,536**	193,421	**11,896**	5,630	**544**	745	**–**	–	**514,976**	199,796
Capital expenditure	**40,071**	3,798	**–**	–	**–**	–	**–**	–	**40,071**	3,798

1 North America includes the United States of America (the "USA") and Canada

2 European Union includes Spain, Italy, France and the United Kingdom

3 Others includes Middle East, South America and Southeast Asia

7. OTHER INCOME

	2007 HK$'000	2006 HK$'000
Interest income	**824**	1,158
Exchange gains, net	**2,494**	1,627
Rental income	**421**	25
Gain on disposal of a subsidiary *(Note 36(b))*	**1,322**	–
Gain on disposal of property, plant and equipment	**–**	9
Write off of deposits received	**–**	912
Sale of moulds	**1,288**	602
Reversal of revaluation decrease previously charged to consolidated income statement	**661**	312
Others	**1,060**	652
	8,070	5,297

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

8. OPERATING (LOSS)/PROFIT

	2007	2006
	HK$'000	HK$'000
Operating (loss)/profit is arrived at after charging:		
Amortisation of		
– license rights (included in other operating expenses)	**620**	190
– trademark (included in distribution costs)	**15**	–
	635	190
Auditors' remuneration	**1,900**	777
Bad debts written-off	**146**	376
Cost of inventories recognised as expenses	**62,970**	57,288
Depreciation:		
– owned property, plant and equipment	**6,478**	6,582
– leased property, plant and equipment	**–**	72
	6,478	6,654
Provision for slow-moving inventories	**1,662**	804
Loss on disposal of subsidiaries (included in other operating expenses)	**–**	327
Operating lease charges on		
– land and buildings	**257**	178
– prepaid land lease	**159**	147
Research and development costs – current year expenditure	**1,015**	2,763
Loss on disposal of property, plant and equipment	**7**	–
Write off of property, plant and equipment	**–**	1

Depreciation expense on property, plant and equipment of HK$4,466,000 (2006: HK$2,966,000) has been expensed in cost of sales, HK$368,000 (2006: HK$149,000) in distribution costs and HK$1,644,000 (2006: HK$3,539,000) in administrative expenses.

9. FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Interest charges on:		
Bank loans and trust receipt loans wholly repayable within five years	**2,238**	2,561
Other loans wholly repayable within five years	**1,491**	–
Finance charges on finance leases	**–**	15
Other loan from a shareholder	**44**	–
	3,773	2,576

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2007 **HK$'000**	2006 HK$'000
Current tax – Hong Kong		
Tax for the year	**896**	47
Deferred tax		
Current year *(Note 35)*	**512**	1,390
Total income tax expense	**1,408**	1,437

10. INCOME TAX EXPENSE *(Continued)*

Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2007	2006
	HK$'000	HK$'000
(Loss)/Profit before income tax	**(7,012)**	2,577
Tax calculated at the rate of 17.5% (2006: 17.5%)	**(1,227)**	451
Tax calculated at the rates applicable to other jurisdictions	**(1,770)**	(574)
Tax effect of non-deductible expenses	**2,990**	1,204
Tax effect of non-taxable revenue	**(832)**	(367)
Tax effect of utilisation of tax losses not previously recognised	**–**	(912)
Tax effect of tax losses not recognised	**2,255**	1,635
Over provision in prior year	**(8)**	–
Actual tax expense	**1,408**	1,437

In addition to the amount expensed to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 34).

No provision for the PRC enterprise income tax has been made for Fujian Kcare Giftoys Co., Ltd. (福建奇嘉禮品玩具有限公司), Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian (福建莆田市僑雄輕工有限公司), Qiao Xiong Toys Co., Ltd. Putian Fujian (福建省莆田市僑雄玩具有限公司) and Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司) and Mingrunfeng as these subsidiaries did not derive any assessable income during the year.

Pursuant to the tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises in Mainland China are unified at 25% with effective from 1 January 2008. As a result, the provision for deferred tax reduced accordingly.

11. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of HK$8,216,000 (2006: Profit of HK$1,103,000), HK$3,514,000 (2006: Profit of HK$38,823,000) has been dealt with in the financial statements of the Company.

12. PROPOSED FINAL DIVIDEND

	2007 HK$'000	2006 HK$'000
Proposed final dividend – Nil (2006: 0.01 HK cent) per share	–	299

13. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to equity holders of the Company for the year of HK$8,216,000 (2006: Profit of HK$1,103,000) and the weighted average of 3,190,638,419 (2006: 2,883,343,371) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2007 has not been presented as the impact of the exercise of the share options was anti-dilutive.

The calculation of diluted earning per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company for the year of HK$1,103,000 and the weighted average of 2,922,024,874 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2006 is calculated based on the weighted average of 2,883,343,371 ordinary shares in issue during the year plus the weighted average of 38,681,503 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

The Group entered into an acquisition agreement in relation to acquisition of subsidiaries on 16 August 2007. Part of the consideration is to be satisfied by the allotment and issue of 600,000,000 ordinary shares of the Company, and convertible notes with principal amount of approximately HK$254,065,000 which is convertible into 362,949,764 ordinary shares at a conversion price of HK$0.7 per share. The result of the acquisition was disclosed as Post Balance Sheet Events in note 45 to the financial statements.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK$'000	2006 HK$'000
Wages and salaries	**19,593**	16,078
Pension costs – defined contribution plans	**1,092**	1,023
Share options granted to employees	**3,361**	4,614
	24,046	21,715

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

	Fees	Salaries and allowances	Contribution to defined contribution plan	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2007				
Executive directors				
Mr. Hui Kee Fung	**–**	**1,584**	**158**	**1,742**
Mr. Hui Ki Yau	**–**	**1,380**	**138**	**1,518**
Ms. Hui Hung Tan, Teresa	**–**	**672**	**67**	**739**
Independent non-executive directors				
Mr. Peng Guanghui	**50**	**–**	**–**	**50**
Mr. Kung King Ching, Conrad	**50**	**–**	**–**	**50**
Mr. Tang Rongzu	**50**	**–**	**–**	**50**
	150	**3,636**	**363**	**4,149**
For the year ended 31 December 2006				
Executive directors				
Mr. Hui Kee Fung	–	1,464	147	1,611
Mr. Hui Ki Yau	–	1,272	127	1,399
Ms. Hui Hung Tan, Teresa	–	624	62	686
Independent non-executive directors				
Mr. Peng Guanghui	70	–	–	70
Mr. Kung King Ching, Conrad	50	–	–	50
Mr. Tang Rongzu	30	–	–	30
	150	3,360	336	3,846

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year ended 31 December 2007 (2006: Nil).

During the year, there were no emoluments paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2006: Nil).

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	2007 **HK$'000**	2006 HK$'000
Basic salaries, share options and other allowances	**1,454**	2,911
Contribution to pensions schemes	**86**	56
	1,540	2,967

During the year, no emoluments were paid to these two highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2006: Nil).

The emoluments of the two (2006: two) highest paid individuals fell within the following bands:

	Number of highest paid individuals	
	2007 **HK$'000**	2006 HK$'000
HK$Nil – HK$1,000,000	**2**	–
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**–**	1

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000 *(note (a))*	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2005								
Cost or valuation	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651
Accumulated depreciation	–	–	(1,830)	(6,822)	(8,664)	(3,065)	(2,901)	(23,282)
Net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
Year ended 31 December 2006								
Opening net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
Additions	–	–	–	160	798	226	–	1,184
Revaluation surplus credited to equity	793	271	–	–	–	–	–	1,064
Revaluation surplus credited to consolidated income statement	312	–	–	–	–	–	–	312
Disposals	–	–	–	–	–	–	(25)	(25)
Write-off	–	–	–	(1)	–	–	–	(1)
Depreciation	(662)	(1,269)	(57)	(682)	(3,497)	(353)	(134)	(6,654)
Exchange differences	97	1,008	–	56	429	31	7	1,628
Closing net book amount	19,900	25,210	206	2,909	14,435	835	382	63,877
At 31 December 2006								
Cost or valuation	19,900	25,210	2,093	10,599	26,822	4,272	3,252	92,148
Accumulated depreciation	–	–	(1,887)	(7,690)	(12,387)	(3,437)	(2,870)	(28,271)
Net book amount	19,900	25,210	206	2,909	14,435	835	382	63,877

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

	Leasehold land and buildings HK$'000 *(note (a))*	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2007								
Opening net book amount	19,900	25,210	206	2,909	14,435	835	382	63,877
Additions	–	698	–	513	698	319	989	3,217
Revaluation surplus credited to equity	645	346	–	–	–	–	–	991
Revaluation surplus credited to consolidated income statement	661	–	–	–	–	–	–	661
Acquisition of subsidiaries *(note 36(a))*	–	–	–	–	–	28	–	28
Disposal of a subsidiary and disposals	(6,650)	–	–	–	–	(14)	–	(6,664)
Depreciation	(771)	(1,323)	(57)	(464)	(3,366)	(294)	(203)	(6,478)
Exchange differences	155	1,609	–	80	422	54	38	2,358
Closing net book amount	**13,940**	**26,540**	**149**	**3,038**	**12,189**	**928**	**1,206**	**57,990**
At 31 December 2007								
Cost or valuation	13,940	26,540	2,094	11,527	28,488	4,679	4,371	91,639
Accumulated depreciation	–	–	(1,945)	(8,489)	(16,299)	(3,751)	(3,165)	(33,649)
Net book amount	**13,940**	**26,540**	**149**	**3,038**	**12,189**	**928**	**1,206**	**57,990**
At cost	**–**	**–**	**2,094**	**11,527**	**28,488**	**4,679**	**4,371**	**51,159**
At professional valuation	**13,940**	**26,540**	**–**	**–**	**–**	**–**	**–**	**40,480**
At 31 December 2007	**13,940**	**26,540**	**2,094**	**11,527**	**28,488**	**4,679**	**4,371**	**91,639**
At cost	–	–	2,093	10,599	26,822	4,272	3,252	47,038
At professional valuation	19,900	25,210	–	–	–	–	–	45,110
At 31 December 2006	19,900	25,210	2,093	10,599	26,822	4,272	3,252	92,148

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
Medium term leases held in Hong Kong	**11,410**	11,050
Medium term leases held outside Hong Kong	**29,070**	34,060
	40,480	45,110

At 31 December 2007, certain of the Group's buildings and leasehold land and buildings with aggregate carrying values of approximately HK$6,080,000 and HK$10,200,000 respectively (2006: HK$10,180,000 and HK$9,860,000 respectively) were pledged to secure general banking facilities granted to the Group as detailed in note 31 to the financial statements.

The leasehold land and buildings situated in Hong Kong for office purpose and outside Hong Kong for office purpose were valued as at 31 December 2007 at HK$13,940,000 (2006: HK$19,900,000) on an open market value basis by Castores Magi (Hong Kong) Limited ("Castores"), an independent firm of professional valuers. The buildings situated outside Hong Kong for the Group's production facilities were valued by Castores as at 31 December 2007 at HK$26,540,000 (2006: HK$25,210,000) on a depreciated replacement cost basis.

Had the Group's buildings and leasehold land and buildings been stated at cost less accumulated depreciation and impairment, they would have been included in the financial statements at approximately HK$17,490,000 (2006: HK$16,755,000) and HK$12,468,000 (2006: HK$13,188,000) respectively.

17. PREPAID LAND LEASE PAYMENTS

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

	Group	
	2007	2006
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**6,450**	6,213

	Group	
	2007	2006
	HK$'000	HK$'000
Opening net carrying amount	**6,213**	6,118
Exchange difference	**396**	242
Annual charges of prepaid operating lease payments	**(159)**	(147)
Closing net carrying amount	**6,450**	6,213

Land use rights with carrying amount of HK$1,826,000 (2006: Nil) was pledged to secure general banking facilities granted to the Group.

18. INVESTMENT PROPERTY

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount as at 1 January and 31 December	**400**	400

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

The investment property was valued on an open market value basis by Castores Magi (Hong Kong) Limited at 31 December 2007. The investment property held in Hong Kong represents a car parking space L12 on 1/F of Wing Kin Industrial Building, 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong. The investment property is leased to a third party under operating lease arrangements, further details of which are included in note 37(a) to the financial statements.

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

19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2007	2006
	HK$'000	HK$'000
Investments – unlisted shares, at cost	**125,261**	125,261
Investments – share based compensation	**8,248**	4,819
Investments – capital contribution	**295,085**	–
Less: Provision for impairment	**(25,000)**	(25,000)
	403,594	105,080
Amount due from a subsidiary	**115,717**	110,183

An impairment loss was recognised for certain unlisted investments in subsidiaries with a carrying amount of HK$125,261,000 (before deducting impairment loss) because investment cost is less than its recoverable amount.

19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(Continued)*

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

Particulars of the principal subsidiaries as at 31 December 2007 are as follows:

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

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19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2007 are as follows: *(Continued)*

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests interests held by the Company		Principal activities	Place of operations
			Direct	Indirect		
Newgary Development Limited	Hong Kong	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each *(note (a))*	–	100%	Property holding	Hong Kong
Top Point Investments Limited*	BVI	100 ordinary shares of US$1 each	–	100%	Investment in securities	Hong Kong
Ka Hung Toys Co., Ltd. Fujian 福建嘉雄玩具有限公司*(note (e))**	PRC	RMB10,000,000	–	100%	Manufacture and trading of decorative gift items and toys	PRC
Better Sourcing Worldwide Limited (formerly known as "Miracles For Fun (HK) Limited") ("Better Sourcing")	Hong Kong	100 ordinary shares of HK$100 each	–	63%	Trading of decorative gift items and toys	Hong Kong
Toland International Limited	Hong Kong	4,200,000 ordinary shares of HK$1 each		70%	Trading of flags and garden products	Hong Kong
Inner Mongolia Mingrunfeng Energy Co., Ltd. 內蒙古銘潤峰能源有限公司 (formerly known as "Beijing Mingrunfeng Trading Co., Ltd." 北京銘潤峰商貿有限公司)*(note (f))**#	PRC	RMB20,000,000	–	100%	Exploration and mining	PRC

* The statutory financial statements of these subsidiaries for the year ended 31 December 2007 were not audited by Grant Thornton.

\# The subsidiary was newly acquired by the Group for the year ended 31 December 2007.

19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY *(Continued)*

Notes:

(a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

(b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US$5,000,000 which has been fully paid up.

(c) Qiao Xiong Toys Co., Ltd. Putian Fujian, is a wholly foreign-owned enterprise established in the PRC with tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1996. Its registered capital is HK$10,000,000 which has been fully paid up.

(d) Fujian Kcare Giftoys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.

(e) Ka Hung Toys Co., Ltd. Fujian is a wholly foreign-owned enterprise established in the PRC with tenure of 50 years commencing from the date of issuance of its business licence on 12 November 2002. Its registered capital is RMB10,000,000 which has been fully paid up.

(f) Inner Mongolia Mingrunfeng Energy Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with tenure of 30 years commencing from the date of issuance of its business licence on 19 September 2003. Its registered capital is RMB20,000,000 which has been fully paid up.

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

20. INTEREST IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–
Share of net assets – unlisted	**524**	623
	524	623
Amount due from a jointly controlled entity	**3,443**	1,097

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

Marketing Resource Group, Inc., incorporated in the USA and engaged in trading of flags and garden products, is the only jointly controlled entity held by the Group. Its financial statements have been incorporated into the Group's 2007 and 2006 consolidated financial statements using the equity method.

The following table illustrates the share of the assets and liabilities and results of the jointly controlled entity:

	2007	2006
	HK$'000	HK$'000
Share of the jointly controlled entity's assets and liabilities:		
– Non-current assets	**305**	78
– Current assets	**2,468**	2,817
	2,773	2,895
– Current liabilities	**2,249**	2,272
Net assets	**524**	623
Share of the jointly controlled entity's results:		
– Income	**15,150**	4,237
– Expenses	**(15,249)**	(4,192)
(Loss)/Profit for the year	**(99)**	45

The statutory financial statements of the jointly controlled entity were not audited by Grant Thornton.

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21. AMOUNT DUE FROM A RELATED COMPANY

Details of amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	:	Kiu Hung Holdings Limited
Directors connected with the borrower	:	Hui Kee Fung Hui Ki Yau Hui Hung Tan, Teresa

	Group	
	2007	2006
	HK$'000	HK$'000
Current portion	**–**	2,900
Maximum amount outstanding during the year	**2,900**	8,132

As at 31 December 2006, the amount was stated at amortised cost using the effective interest rate of the Group at 6.9% per annum.

22. AMOUNT DUE TO A SHAREHOLDER

The amount due is unsecured, interest-free and repayable on demand.

23. GOODWILL

Group

	HK$'000
Carrying value at 1 January 2006	–
Addition	–
Amortisation charge	–
Carrying value at 31 December 2006	–
Gross amount at 31 December 2006	261
Accumulated impairment	(261)
Accumulated amortisation	–
Carrying value at 31 December 2006	–
Carrying value at 1 January 2007	–
Acquisition of subsidiaries *(notes 36(a))*	303,590
Amortisation charge	–
Carrying value at 31 December 2007	**303,590**
Gross amount at 31 December 2007	303,590
Accumulated amortisation	–
Carrying value at 31 December 2007	**303,590**

Goodwill arose from the acquisition of Mingrunfeng and is mainly attributable to the values of the potential mining rights which are in the process of procurement by Mingrunfeng and the related technical knowledge and expertise acquired for the coal mining business.

23. GOODWILL *(Continued)*

Mingrunfeng holds an exploration licence in Guerbanhada Coal Mine (the "Coal Mine") in Xilinguolemeng of the Inner Mongolia Autonomous Region of the PRC, which runs from 26 October 2007 to 31 October 2009. On or before the expiry of the exploration licence, Mingrunfeng is entitled to apply for a mining right certificate provided that certain conditions required by national and provincial laws and regulations are satisfied. According to a technical report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd., an independent mining and geological consultant, on 30 March 2007, the Coal Mine was estimated to have a coal reserve of 106 million tons at the general stage of exploration of the Coal Mine. 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 Coal Mine has increased to 128.86 million tons upon completion of the detailed stage of exploration of the Coal Mine.

The entire goodwill of HK$303,590,000 arising from the acquisition has been allocated to the coal exploration and mining cash-generating units ("CGU") for impairment testing.

At the balance sheet date, the Group performed an impairment review for goodwill with reference to the scenario analysis carried out by the management. The scenario analysis is based on cash flow forecasts derived from the extrapolated cash flows for 20 years. The rate used to discount the forecast cash flow is 10.66%.

The recoverable amount of the coal exploration and mining CGU is determined from value-in-use calculations. The key estimations used in the calculation of the value-in-use include the discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on coal production growth forecasts. Changes in the coal prices are based on expectations of the future changes in market. Economic life of the coal mine is based on the estimated coal reserve over the estimated annual mining production. Annual mining production rate of coal is expected to be 2 million tons of coal for year 2009 and 3 million tons of coal per year commencing from year 2010. The unit selling price and unit cost of production are assumed to remain constant throughout the forecast period.

The key assumptions used in the scenario analysis include, amongst others, the Group is being able (a) to obtain the mining right certificate by the end of year 2008 (b) to commence the mining production in the second quarter of year 2009 and (c) to raise sufficient funds to finance the subsequent mining operations which are capital-intensive. As at the date of this report, the Group is still in the process of obtaining the necessary funds for the above-mentioned purposes.

On the basis of the review, management concluded that the recoverable amount of the goodwill exceeds its carrying amount and therefore no impairment loss needs to be recognised.

24. OTHER INTANGIBLE ASSETS

Group

	Trademark HK$'000	License rights HK$'000	Total HK$'000
Carrying value at 1 January 2006	–	–	–
Addition	1,155	1,459	2,614
Amortisation charge	–	(190)	(190)
Carrying value at 31 December 2006	1,155	1,269	2,424
Gross amount at 31 December 2006	1,155	1,459	2,614
Accumulated amortisation	–	(190)	(190)
Carrying value at 31 December 2006	1,155	1,269	2,424
Carrying value at 1 January 2007	1,155	1,269	2,424
Amortisation charge	(15)	(620)	(635)
Carrying value at 31 December 2007	**1,140**	**649**	**1,789**
Gross amount at 31 December 2007	1,155	1,459	2,614
Accumulated amortisation	(15)	(810)	(825)
Carrying value at 31 December 2007	**1,140**	**649**	**1,789**

Trademark

For the year ended 31 December 2006, the Group entered into an Asset Purchase Agreement to acquire the right to the trade name of "Toland" for 99 years with a consideration of US$150,000.

24. OTHER INTANGIBLE ASSETS *(Continued)*

License rights

During 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. The license will be expired on 31 December 2008. Professional consulting fee amounted to RMB1,500,000 (HK$1,459,000) directly attributed to the obtainment of license is recognised as cost of license rights.

No contractual commitments resulting from these agreements were entered during the year.

Amortisation charges on the trademark and the license rights are included in "distribution costs" and "other operating expenses" in the consolidated income statement respectively.

25. EXPLORATION AND EVALUATION ASSETS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying value at 1 January 2007	**–**	–
Acquisition of subsidiaries *(note 36(a))*	**36,826**	–
Exchange difference	**1,520**	–
Carrying value at 31 December	**38,346**	–
Gross amount at 31 December	**38,346**	–
Accumulated amortisation	**–**	–
Carrying value at 31 December	**38,346**	–

The exploration and evaluation assets related to the Coal Mine was not yet operative as at 31 December 2007. These assets are not subject to amortisation until they are placed in use and are not subject to impairment until some facts or circumstances suggest that the carrying amount exceed the recoverable amount.

The Company has no exploration and evaluation assets.

26. INVENTORIES

	Group 2007 HK$'000	Group 2006 HK$'000
Raw materials	**12,354**	11,423
Work in progress	**4,068**	3,675
Finished goods	**2,672**	2,701
	19,094	17,799
Less: Provision for slowing moving inventories	**(9,234)**	(7,572)
	9,860	10,227
The cost of inventories recognised as expense and included in cost of sales	**62,970**	57,288

27. TRADE AND BILLS RECEIVABLE

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

At 31 December 2007, the ageing analysis of the trade and bills receivable, based on the invoice dates, net of provision, was as follows:

	2007 HK$'000	2006 HK$'000
0 – 30 days	**6,408**	4,878
31 – 90 days	**2,254**	3,799
91-180 days	**309**	274
181-360 days	**137**	154
	9,108	9,105

27. TRADE AND BILLS RECEIVABLE *(Continued)*

Based on the due dates, the ageing analysis of trade receivable that are not impaired is as follows:

	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**1,519**	1,022
1 – 90 days past due	**7,172**	7,655
91 to 180 days past due	**280**	274
Over 180 days past due but less than one year	**137**	154
	7,589	8,083
	9,108	9,105

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Listed equity securities in Hong Kong held for trading, at fair value	**286**	286
Market value of listed securities held as at 31 December	**286**	286

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

29. CASH AT BANKS AND IN HAND

Included in cash at banks and in hand is an amount of approximately HK$54,622,000 (2006: HK$64,994,000), representing RMB deposits placed with banks in the PRC by the Group.

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

30. TRADE AND OTHER PAYABLE

	Group	
	2007	2006
	HK$'000	HK$'000
Trade and bills payable	**9,256**	7,632
Other payables and accruals:		
Deposits received	**765**	124
Accrued expenses	**17,099**	4,778
	17,864	4,902
	27,120	12,534

The Group was granted by its suppliers credit periods of 30 to 90 days. Based on the invoice dates, the ageing analysis of the trade and bills payable was as follows:

	2007	2006
	HK$'000	HK$'000
0 – 30 days	**3,582**	2,098
31 – 90 days	**3,878**	3,675
91 – 180 days	**1,315**	1,633
181 to 360 days	**281**	18
Over 360 days	**200**	208
	9,256	7,632

31. BORROWINGS

	Group	
	2007	2006
	HK$'000	HK$'000
Non-current		
Interest bearing bank loans	**1,284**	1,765
Finance lease liabilities	**–**	1
	1,284	1,766
Current		
Interest bearing bank loans	**13,458**	29,441
Interest bearing trust receipt loans	**2,034**	3,578
Finance lease liabilities	**–**	47
Other interest bearing loans	**16,489**	–
	31,981	33,066
Total borrowings	**33,265**	34,832
Secured	**33,265**	34,832

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

31. BORROWINGS *(Continued)*

At 31 December 2007, the Group's bank loans and trust receipt loans and other loans (excluding finance lease liabilities) were repayable as follows:

	Group					
	Bank loans		Trust receipt loans		Other loans	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**13,458**	29,441	**2,034**	3,578	**16,489**	–
In the second year	**509**	475	**–**	–	**–**	–
In the third to fifth years	**775**	1,290	**–**	–	**–**	–
Wholly repayable within 5 years	**14,742**	31,206	**2,034**	3,578	**16,489**	–

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

	2007	2006
	HK$'000	HK$'000
Due within one year	**–**	55
Due in the second to fifth years	**–**	1
	–	56
Future finance charges on finance leases	**–**	(8)
Present value of finance lease liabilities	**–**	48
The present value of finance lease liabilities was as follows:		
Due within one year	**–**	47
Due in the second to fifth years	**–**	1
	–	48
Less: Portion due within one year included under current liabilities	**–**	(47)
Non-current portion included under non-current liabilities	**–**	1

31. BORROWINGS *(Continued)*

At 31 December 2007, the banking facilities of the Group were secured by first legal charges on certain of the Group's land use rights, buildings and leasehold land and buildings with carrying value of approximately HK$1,826,000 (2006: Nil), HK$6,080,000 (2006: HK$10,180,000) and HK$10,200,000 (2006: HK$9,860,000) respectively (note 16 and 17).

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

	2007 **HK$'000**	2006 HK$'000
Fixed-rate borrowings:		
Within one year	**29,468**	26,147
In more than one year but not more than two years	**–**	1
	29,468	26,148

In addition, the Group has variable-rate borrowings which are denominated in Hong Kong dollars and the rates are set at the range from HK prime rate minus 1% per annum to HK prime rate per annum.

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

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	**8.892% p.a. to 19.2% p.a.**	3% p.a. to 7.605% p.a.
Variable-rate borrowings	**4.25% p.a. to 7.75% p.a.**	6.75% p.a. to 8.25% p.a.

During the year, the Group obtained new loans in the amount of HK$14,422,000. The loans bear interest rate at market rates and will be repayable in 2008. The proceeds were used to finance the Group's daily operations.

32. SHARE CAPITAL

	Number of shares	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
Authorised:			
5,000,000,000 ordinary shares of HK$0.02 each	5,000,000,000	**100,000**	100,000

	Number of shares	Total HK$'000
Issued and fully paid:		
At 1 January 2006	2,213,820,000	44,277
Open offer of new shares issued	774,837,000	15,496
At 31 December 2006 and 1 January 2007	2,988,657,000	59,773
Acquisition of subsidiaries	362,000,000	7,240
New shares issued upon exercise of share options *(note 33)*	55,933,600	1,119
At 31 December 2007	**3,406,590,600**	**68,132**

Pursuant to the Company's announcement made on 6 July 2006 to make an open offer of 774,837,000 shares at HK$0.05 per offer share on the basis of 7 offer shares for every 20 existing shares held on 31 July 2006, to raise approximately HK$38,742,000, before expenses or HK$37,244,000 after expenses. The open offer was closed on 14 August 2006, with 10.86% acceptance, the remaining offers were fully underwritten and became unconditional on 17 August 2006.

As a result of the open offer, the issued share capital of the Company for the year ended 31 December 2006 was increased to HK$59,773,000 by the capitalisation of HK$21,748,000, net of expenses, share premium. The 774,837,000 new shares issued rank pari passu in all respects with the existing shares of the Company.

32. SHARE CAPITAL *(Continued)*

For the year ended 31 December 2007, the Group has completed the acquisition of the entire issued share capital of Jumplex Investments Limited ("Jumplex"), First Choice Resources Limited ("First Choice"), Wise House Limited ("Wise House") and Mingrunfeng by the issue of 243,792,000 consideration shares on 29 May 2007 and 118,208,000 consideration shares on 2 October 2007. The fair value of such consideration shares were valued by RHL Appraisal Limited, an independent firm of professional valuers, at approximately HK$153,223,000 and HK$141,862,000 as at the date of issue and allotment of the shares on 29 May 2007 and 2 October 2007 in respectively.

33. SHARE-BASED EMPLOYEE COMPENSATION

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

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

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

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

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

All share based employee compensation will be settled in equity. 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$0.7400	1 July 2008 to 18 June 2016
		124,260,000		

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The following table discloses movements in the outstanding options granted under the Scheme during the year:

			Number of share options						
Year	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	Weighted average exercise price
2007	Employees	2006(a)	49,280,000	–	(37,450,000)	–	11,830,000	11,830,000	HK$0.1016
		2006(b)	67,840,000	–	(15,843,600)	(217,600)	51,778,800	4,470,000	HK$0.1016
		2007	–	3,300,000	–	–	3,300,000	–	HK$0.7400
			117,120,000	3,300,000	(53,293,600)	(217,600)	66,908,800	16,300,000	
	Consultant	2006(a)	3,840,000	–	(2,640,000)	–	1,200,000	1,200,000	
			120,960,000	**3,300,000**	**(55,933,600)**	**(217,600)**	**68,108,800**	**17,500,000**	
2006	Employees	2006(a)	–	49,280,000	–	–	49,280,000	–	HK$0.1016
		2006(b)	–	67,840,000	–	–	67,840,000	–	HK$0.1016
			–	117,120,000	–	–	117,120,000	–	
	Consultant	2006(a)	–	3,840,000	–	–	3,840,000	–	HK$0.1016
			–	120,960,000	–	–	120,960,000	–	

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

(a) The share options granted on 19 June 2006 are exercisable from 1 January 2007 to 18 June 2016 in the following manner:

	Maximum exercisable percentage	
Exercisable period	**2006a**	**2006b**
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) Share options granted on 5 July 2007 are subject to a vesting period and become exercisable in whole or in part in the following manner:

	Maximum exercisable percentage
Exercisable period	**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

All share options as at 31 December 2007 have been accounted for under HKFRS 2.

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

(b) *(Continued)*

The fair value of options granted under the Scheme on 19 June 2006 and 5 July 2007, measured at date of grant, were approximately HK$8,604,000 and HK$1,077,000 respectively. The following significant assumptions and estimates were used by the independent valuers to derive the fair value of options granted during the year, using the Black-Scholes option pricing model:

Date of grant	**19 June 2006**	**5 July 2007**
Expected volatility (based on historical volatility of the Company's shares)	48,916%	125.24%
Expected life	10 years	3 years
Risk-free interest rate (annual yield of 3-year Exchange Fund on the grant date)	5.14%	4.449%
Expected dividend yield	Nil	Nil

In total, HK$3,429,000 (2006: HK$4,819,000) of the share-based payment has been included in the consolidated income statement for the year ended 31 December 2007, of which HK$3,361,000 (2006: HK$4,614,000) and HK$68,000 (2006: HK$205,000) has been included as employee compensation expenses, and consultancy fee respectively, the corresponding amounts have been credited to equity compensation reserve (note 34).

The share-based payment of HK$3,429,000 (2006: HK$4,819,000) has been included in the Company's balance sheet as investment in subsidiaries and the corresponding amount has been credited to equity compensation reserve (note 34).

No liabilities were recognised due to share-based payment transactions.

34. RESERVES

Group

	Other reserves							Retained profits	Total
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Equity compensation reserve	Assets revaluation reserve	Sub-total		
	HK$'000	HK$'000 *(note(a))*	HK$'000 *(note(b))*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2005 and 1 January 2006	1,658	1,495	313	(1,455)	–	12,584	14,595	41,293	55,888
Revaluation surplus	–	–	–	–	–	1,064	1,064	–	1,064
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(111)	(111)	–	(111)
Translation adjustments	–	–	–	2,733	–	–	2,733	–	2,733
Profit for the year	–	–	–	–	–	–	–	1,103	1,103
Proceeds from open offer of new shares issued, net *(note 32)*	21,748	–	–	–	–	–	21,748	–	21,748
Share-based compensation *(note 33)*	–	–	–	–	4,819	–	4,819	–	4,819
2006 proposed final dividend *(note 12)*	–	–	–	–	–	–	–	(299)	(299)
At 31 December 2006	23,406	1,495	313	1,278	4,819	13,537	44,848	42,097	86,945
At 31 December 2006 and 1 January 2007	23,406	1,495	313	1,278	4,819	13,537	44,848	42,097	86,945
Revaluation surplus	–	–	–	–	–	991	991	–	991
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(373)	(373)	–	(373)
Translation adjustments	–	–	–	4,196	–	–	4,196	–	4,196
Loss for the year	–	–	–	–	–	–	–	(8,216)	(8,216)
Acquisition of subsidiaries	287,845	–	–	–	–	–	287,845	–	287,845
Issue of shares upon exercise of share options	8,543	–	–	–	(3,979)	–	4,564	–	4,564
Share-based compensation *(note 33)*	–	–	–	–	3,429	–	3,429	–	3,429
Release on forfeiture of share options	–	–	–	–	(5)	–	(5)	5	–
At 31 December 2007	**319,794**	**1,495**	**313**	**5,474**	**4,264**	**14,155**	**345,495**	**33,886**	**379,381**

34. RESERVES *(Continued)*

Company

	Share premium HK$'000	Capital reserve HK$'000 *(note (b))*	Equity compensation reserve HK$'000	Retained profits/ (Accumulated loss) HK$'000	Total HK$'000
At 31 December 2005	1,658	125,161	–	(24,123)	102,696
Proceeds from open offer of new shares issued, net *(note 32)*	21,748	–	–	–	21,748
Share-based compensation *(note 33)*	–	–	4,819	–	4,819
Profit for the year	–	–	–	38,823	38,823
2006 proposed final dividend *(note 12)*	–	–	–	(299)	(299)
At 31 December 2006	23,406	125,161	4,819	14,401	167,787
Acquisition of subsidiaries	287,845	–	–	–	287,845
Issue of shares upon exercise of share options	8,543	–	(3,979)	–	4,564
Share-based compensation *(note 33)*	–	–	3,429	–	3,429
Loss for the year	–	–	–	(3,514)	(3,514)
Release on forfeiture of share options	–	–	(5)	5	–
At 31 December 2007	**319,794**	**125,161**	**4,264**	**10,892**	**460,111**

(a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their net profit after tax, as calculated in accordance with the PRC accounting regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiaries' equity owners. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

34. RESERVES *(Continued)*

Company *(Continued)*

(b) The capital reserve of the Group represents the excess of the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares on the Stock Exchange over the nominal value of Company's shares issued in exchange thereof.

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

35. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal the applicable tax rate at balance sheet date.

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

Deferred tax liabilities

	Accelerated depreciation allowances		Revaluation of properties		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**1,055**	1,101	**2,774**	2,663	**3,829**	3,764
Credited to consolidated income statement	**(39)**	(46)	**–**	–	**(39)**	(46)
Charged to equity	**–**	–	**373**	111	**373**	111
At 31 December	**1,016**	1,055	**3,147**	2,774	**4,163**	3,829

35. DEFERRED TAX *(Continued)*

Deferred tax assets

	Tax losses	
	2007	2006
	HK$'000	HK$'000
At 1 January	**551**	1,987
Charged to consolidated income statement	**(551)**	(1,436)
At 31 December	**–**	551

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK$3,509,000 (2006: HK$7,123,000) and HK$3,853,000 (2006: HK$3,853,000) respectively due to the unpredictability of future profit streams.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

On 26 May 2007, Bright Assets Investments Limited ("Bright Assets"), an indirectly wholly owned subsidiary of the Company, acquired the entire equity interest of Jumplex, First Choice and Wise House. After completion of the acquisition of Jumplex, First Choice and Wise House, Bright Assets obtained 67.35% indirectly equity interest in Mingrunfeng and Mingrunfeng became a subsidiary of the Company. On 20 June 2007, additional 16.65% equity interest of Mingrunfeng was acquired by Bright Assets as a result of the capital contribution. The total equity interest in Mingrunfeng was then increased to 84%. On 27 September 2007, Bright Assets acquired the remaining 16% equity interest in Mingrunfeng and Mingrunfeng became an indirectly wholly owned subsidiary of the Company.

The total cost of acquisition of HK$315,785,000, of which HK$20,700,000 was paid by cash (HK$15,325,000 was paid as deposit in last year and HK$5,375,000 was paid during the year) and the remaining balance settled by the issue of 243,792,000 and 118,208,000 consideration shares on 29 May 2007 and 2 October 2007 respectively. The fair value of consideration shares issued were valued by RHL Appraisal Limited, an independent firm of professional valuers, at approximately HK$153,223,000 and HK$141,862,000 as at the date of issue and allotment of the shares on 29 May 2007 and 2 October 2007 respectively.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

The acquired business contributed revenue of HK$Nil and net loss of HK$3,962,000 to the Group for the period from 26 May 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been HK$111,189,000 and loss before allocations would have been HK$9,220,000. These amounts have been calculated using the Group's accounting policies.

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

	2007	2006
	HK$'000	HK$'000
Net asset acquired:–		
Property, plant and equipment	**28**	–
Exploration and evaluation assets	**36,826**	–
Other receivables	**378**	–
Cash at banks and in hand	**4,949**	–
Other payables and accruals	**(13,622)**	–
Amount due to a shareholder	**(282)**	–
Borrowings	**(14,814)**	–
Minority interests	**(489)**	–
Net assets	**12,974**	–
Translation adjustments	**(779)**	–
Fair value of net assets acquired	**12,195**	–
Purchase consideration settled in cash during the year	**5,375**	–
Cash acquired	**(4,949)**	–
Net cash outflow in respect of the acquisition of subsidiaries	**(426)**	–

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

	2007	2006
	HK$'000	HK$'000
Purchase consideration:		
Cash paid in 2007	**5,375**	–
Deposits for acquisition paid in 2006	**15,325**	–
Issue of consideration shares	**295,085**	–
Total purchase consideration	**315,785**	–
Fair value of net assets acquired	**(12,195)**	–
Goodwill arising on acquisition *(note 23)*	**303,590**	–

The goodwill is mainly attributable to the values of the potential mining rights which are in the process of procurement by Mingrunfeng and the related technical knowledge and expertise acquired for the coal mining business.

The subsidiaries acquired contributed HK$15,608,000 to the group's operating cash outflow, utilised HK$2,573,000 for investing activities and received HK$1,709,000 for finance activities.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of a subsidiary/subsidiaries

On 31 December 2007, Legend Wealth Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement with an independent third party (the "Purchaser") for the disposal of the entire equity interest in Kiu Hung Investments Limited ("KH Investments") and a shareholder loan owed by KH Investments to the Group at a total consideration of HK$7,500,000 (the "Consideration"). The Purchaser has settled HK$1,000,000 of the Consideration at 31 December 2007 and the Purchaser shall settle the remaining Consideration by four installments in accordance with the following schedule:

Payment due date	**Amount (HK$)**
31 March 2008	1,750,000
30 June 2008	1,750,000
30 September 2008	1,500,000
31 December 2008	1,500,000

The principal asset of KH Investments is a leasehold land and building located in the PRC with carrying value of approximately HK$6,650,000 as at 31 December 2007.

	2007 **HK$'000**	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment	**6,650**	–
Prepayment and other receivables	**–**	327
Cash	**3**	–
Other payables and accruals	**(349)**	–
Provision for tax	**(126)**	–
	6,178	327
Gain/(Loss) on disposal of a subsidiary/subsidiaries	**1,322**	(327)
Consideration	**7,500**	–
Satisfied by:		
Cash receivable	**6,500**	–
Cash received	**1,000**	–
Consideration	**7,500**	–

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of a subsidiary/subsidiaries *(Continued)*

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

	2007 **HK$'000**	2006 HK$'000
Cash consideration received	**1,000**	–
Cash disposed of	**(3)**	–
Net cash inflow in respect of the disposal of a subsidiary	**997**	–

37. OPERATING LEASE ARRANGEMENT

(a) As lessor

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

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	2007 **HK$'000**	2006 HK$'000
Within one year	**24**	23

37. OPERATING LEASE ARRANGEMENT *(Continued)*

(b) As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms of two years (2006: two years).

At 31 December 2007, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	–	270

(c)

At 31 December 2007 and 2006, the Company did not have any operating lease commitments whether as lessee or lessor.

38. CAPITAL COMMITMENTS

On 16 August 2007, Growth Gain Investments Limited ("Growth Gain"), an indirectly wholly owned subsidiary of the Company entered into an acquisition agreement with Gold Dynasty Investments Limited ("Gold Dynasty") to acquire the entire share capital of Lucky Dragon Resources Limited ("Lucky Dragon") at a total consideration of HK$840 million. HK$3 million has been paid as deposit to Gold Dynasty on 16 August 2007.

Of the balance of HK$837 million, the Group has to pay HK$157 million by cash, HK$420 million by the allotment and issue of 600 million consideration shares at an issue price of HK$0.7 per share and HK$260 million by the issue of convertible notes with a conversion price of HK$0.7 per conversion share upon the completion of the acquisition. Detail was disclosed in note 45.1 to the financial statements.

The Company did not have any other significant capital commitment at the balance sheet date (2006: Nil).

39. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2006: Nil).

At 31 December 2007, the Company has executed corporate guarantees to certain of its subsidiaries to the extent of HK$14 million (2006: HK$14 million) to secure a mortgage loan and general banking facilities granted by banks. The amounts utilised as of 31 December 2007 amounted to HK$3,798,000 (2006: HK$8,684,000).

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantees which arose in the ordinary course of business and the fair value of the corporate guarantees granted by the Company is immaterial.

40. 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 HK$1,092,000 (2006: HK$1,023,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2007 and 2006, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2006: Nil) was available at 31 December 2007 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 2007 in respect of the retirement of its employees.

41. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(i) Sales of goods

	2007	2006
	HK$'000	HK$'000
Sales of goods to Marketing Resource Group, Inc.("MRG"), a jointly controlled entity	**6,736**	1,097

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

(ii) Purchase of services

	2007	2006
	HK$'000	HK$'000
Product development, sale and marketing services provided by Mr. Sanders and Miracles For Fun (USA), Inc. to Better Sourcing	**1,478**	1,390

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage and monitor the Group's exposure to a variety of risks which resulted from both its operating and investing activities. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

42.1 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at 31 December 2007, the Group had no facilities.

The following table details the Group's remaining contractual maturity for its financial liabilities as well as financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk.

2007	Within 6 months	6 months – 1 year	1 – 5 years	Total carrying amount as at 31 December 2007
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Trade and bills receivable	8,971	137	–	**9,108**
Prepayment, deposits and other receivables	9,321	–	227	**9,548**
Financial assets through profit or loss	286	–	–	**286**
Cash at banks and in hand	70,557	–	–	**70,557**
	89,135	137	227	**89,499**
Financial liabilities				
Trade and bills payable	(8,775)	(281)	(200)	**(9,256)**
Other payables and accruals	(15,856)	(2,008)	–	**(17,864)**
Borrowings	(18,762)	(13,219)	(1,284)	**(33,265)**
	(43,393)	(15,508)	(1,484)	**(60,385)**

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

42.1 Liquidity risk *(Continued)*

As at the date of this report, the Group is undergoing various fund raising activities to finance the capital requirements for the development of the mine and future mining operations. The ultimate results of the fund raising activities cannot presently be determined, and the carrying amount of goodwill arising from the acquisition of mining business may be affected should the Group be unable to source the necessary finance for the capital requirements.

2006	Within 6 months HK$'000	6 months – 1 year HK$'000	1 – 5 years HK$'000	Total carrying amount as at 31 December 2006 HK$'000
Financial assets				
Trade and bills receivable	8,951	154	–	9,105
Prepayment, deposits and other receivables	1,490	226	–	1,716
Amount due from a related company	2,900	–	–	2,900
Financial assets through profit or loss	286	–	–	286
Cash at banks and in hand	85,224	–	–	85,224
	98,851	380	–	99,231
Financial liabilities				
Trade and bills payable	(7,406)	(18)	(208)	(7,632)
Other payables and accruals	(4,902)	–	–	(4,902)
Borrowings	(5,422)	(27,644)	(1,766)	(34,832)
	(17,730)	(27,662)	(1,974)	(47,366)

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

42.2 Market risk

(i) *Foreign currency risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("US$") and RMB. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. It has not hedged its foreign exchange rate risk. However, the management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arises. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The following table illustrates the sensitivity of the net results for the year in regards to the Group's financial assets and liabilities at the balance sheet date and the reasonable possible changes in the foreign exchange rates in the next 12 months to which the Group has significant exposure at the balance sheet date, based on the assumption that other variables are held constant.

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rate, are as follows:

	HK$'000	HK$'000
2007	**RMB**	**US$**
Trade and bills receivable	634	8,474
Prepayment, deposits and other receivables	73	–
Cash at banks and in hand	54,622	8,710
Trade and bills payable	(7,536)	(183)
Other payables and accruals	(9,951)	–
Borrowings	(29,467)	–
Net monetary assets	8,375	17,001
Foreign currency strengthen/(weaken) by:	5%/(5%)	5%/(5%)
Increase/(Decrease) in profit after tax and retained earnings	419/(419)	850/(850)

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

42.2 Market risk *(Continued)*

(i) *Foreign currency risk (Continued)*

2006	HK$'000 RMB	HK$'000 US$
Trade and bills receivable	460	8,645
Prepayment, deposits and other receivables	466	–
Cash at banks and in hand	64,994	5,030
Trade and bills payable	(4,804)	(1,456)
Other payables and accruals	(1,198)	–
Borrowings	(22,500)	–
Net monetary assets	37,418	12,219
Foreign currency strengthen/(weaken) by:	5%/(5%)	5%/(5%)
Increase/(Decrease) in profit after tax and retained earnings	1,871/(1,871)	611/(611)

(ii) *Interest rate risk*

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing borrowings (borrowings carry interest at variable rate and fixed rate). The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 31 to the financial statements. The management would currently monitor the change of interest rate.

The sensitivity analysis in the table below has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence for the whole year.

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

42.2 Market risk *(Continued)*

(ii) Interest rate risk *(Continued)*

2007	**As at 31 December 2007** HK$'000	**Increase in interest rate**	**Effect on loss for the year and total equity** HK$'000	**Decrease in interest rate**	**Effect on loss for the year and total equity** HK$'000
Variable rate – borrowings	**3,797**	50 basis points	(19)	50 basis points	19

2006	As at 31 December 2006 HK$'000	Increase in interest rate	Effect on profit for the year and total equity HK$'000	Decrease in interest rate	Effect on loss for the year and total equity HK$'000
Variable rate – borrowings	8,684	50 basis points	(43)	50 basis points	43

(iii) Other price risk

The Group is exposed to other price risk through its investment in listed equity securities which are classified as at fair value through profit or loss. The exposure to price change is managed by closely monitoring the changes in market conditions that may have an impact in the market prices or factors affecting the value of the investment in securities. The Group's overall exposure to other price risk is not significant.

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

42.3 Credit risk

Generally, the Group's maximum exposure to credit risk, other than liquid funds, is limited to the carrying amounts of the following financial assets recognised at the balance sheet date, as summarised below:

	2007	2006
	HK$'000	HK$'000
Classes of financial assets – carrying amounts:		
Trade and bills receivable	**9,108**	9,105
Prepayment, deposit and other receivables	**9,548**	1,716
Amount due from a related company	**–**	2,900
Financial assets at fair value through profit or loss	**286**	286
Cash at banks and in hand	**70,557**	85,224
	89,499	99,231

Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the carrying amounts of the above financial assets.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

42.4 Fair values

The directors of the Company consider the fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

43. SUMMARY OF FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's financial instruments as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

Financial assets

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets at fair value through profit or loss	**286**	286	**–**	–
Loans and receivables:				
Trade and bills receivable	**9,108**	9,105	**–**	–
Prepayments, deposits and other receivables	**9,548**	1,716	**1,378**	216
Amount due from a jointly controlled entity	**3,443**	1,097	**–**	–
Amount due from a related party	**–**	2,900	**–**	–
Amount due from a subsidiary	**–**	–	**115,717**	–
Cash at banks and in hand	**70,557**	85,224	**11,444**	12,736
	92,942	100,328	**128,539**	12,952

43. SUMMARY OF FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities at amortised cost:				
Trade and bills payable	**9,256**	7,632	**–**	–
Other payables and accruals	**17,864**	4,902	**3,890**	356
Amount due to a shareholder	**282**	–	**–**	–
Borrowings	**33,265**	34,832	**–**	–
	60,667	47,366	**3,890**	356

44. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

b) To support the Group's stability and growth;

c) To provide capital for the purpose of strengthening the Group's risk management capability; and

d) To provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

44. CAPITAL MANAGEMENT POLICIES AND PROCEDURES *(Continued)*

The gearing ratio at the balance sheet date was as follows:

	2007	2006
	HK$'000	HK$'000
Trade and bills payable	**9,256**	7,632
Other payables and accruals	**17,864**	4,902
Amount due to a shareholder	**282**	–
Borrowings	**33,265**	34,832
Less: Cash at banks and in hand	**(70,557)**	(85,224)
Net debt	**(9,890)**	(37,858)
Total equity	**449,612**	148,314
Total equity and net debt	**439,722**	110,456
Gearing ratio	**N/A**	N/A

45. POST BALANCE SHEET EVENTS

45.1 Acquisition of subsidiaries

On 16 August 2007, Growth Gain entered into an acquisition agreement (the "acquisition agreement") with Gold Dynasty to acquire the entire issued share capital of Lucky Dragon at a total consideration of HK$840 million (subject to certain adjustments). If no adjustment has to be made to the total consideration, HK$160 million shall be settled by cash, HK$420 million shall be settled by the allotment and issue of 600 million consideration shares at an issue price of HK$0.7 per share and HK$260 million shall be settled by the issue of convertible notes with a conversion price of HK$0.7 per conversion share. Lucky Dragon owns the entire equity interest in Tongliao City Heng Yuan Mining Company Limited ("Heng Yuan") which in turn owns (i) the mining rights of the Huanghuashan Coal Mine and (ii) the exploration rights of the Bayanhushuo Coalfield. Upon completion of the acquisition, Lucky Dragon and Heng Yuan will become wholly-owned subsidiaries of the Company.

45. POST BALANCE SHEET EVENTS *(Continued)*

45.1 Acquisition of subsidiaries *(Continued)*

Deposit of HK$3 million was paid by the Group upon the signing of the acquisition agreement on 16 August 2007, such amount was included as deposit for acquisition of a prospective investee company at the balance sheet date. The acquisition transaction was approved by the shareholders at the Company's extraordinary general meeting hold on 18 February 2008 and the acquisition was completed on 28 March 2008. On 28 March 2008, (i) 600 million consideration shares, (ii) convertible notes with principal amount of approximately HK$254,065,000 which is convertible into 362,949,764 conversion shares at a conversion price of HK$0.7 per conversion share and (iii) promissory note in the amount of approximately HK$95,416,000 have been issued to Gold Dynasty as the consideration for the acquisition transaction.

45.2 Issue of promissory note

Pursuant to the acquisition agreement, Growth Gain is required to settle the cash portion of the consideration in the amount of HK$157 million (subject to certain adjustments) by way of cashier orders upon completion of the acquisition, i.e. 28 March 2008. As the Company has not yet reached a decision on the form or mix of such financing activities, Growth Gain entered into a letter of amendment with Gold Dynasty on 20 March 2008 after arm's length negotiation, pursuant to which Gold Dynasty agreed to accept a promissory note (the "Promissory Note") in the amount of HK$157 million (subject to certain adjustments) issued by the Company in lieu of the settlement of the cash portion of the consideration. The Promissory Note was issued by the Company to Gold Dynasty in the adjusted amount of approximately HK$95,416,000 on 28 March 2008. The Promissory Note does not bear any interest, and is repayable by the Company within six months from the date of its issuance. In order to facilitate the procurement of the necessary financing by the Company for repayment of the Promissory Note, on 22 April 2008, the Company and Gold Dynasty has agreed to extend the repayment date of the Promissory Note from 28 September 2008 to 28 September 2009 subject to the condition that the Company shall, before 28 September 2008, satisfied Gold Dynasty that the Company does not or will not have sufficient funds to settle the Promissory Note by 28 September 2008. In addition, notwithstanding the extension of the repayment date of the Promissory Note, the Company shall use its best endeavors to apply its available funds to pay Gold Dynasty the principal sum of the Promissory Note at its first priority and to settle the Promissory Note in full or in part as soon as possible once the Company has sufficient funds to do so.

45.3 Exercise of share option

Subsequent to the balance sheet date and up to the date of this report, a total of 1,529,200 share options have been exercised by the option holders which resulted in the allotment and issue of 1,529,200 new ordinary shares in the Company at an exercise price of HK$0.1016 per share for a total consideration of approximately HK$155,000.

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