



# Kiu Hung International Holdings Limited

## 僑雄國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 381)

### ANNOUNCEMENT OF 2007 INTERIM RESULTS

#### INTERIM RESULTS

The Board of Directors (the “Board”) of Kiu Hung International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 June</b>	
		<b>2007</b>	<b>2006</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>REVENUE</b>	3	<b>41,769</b>	33,291
Cost of sales		<b>(30,109)</b>	(23,419)
Gross profit		<b>11,660</b>	9,872
Other income and gains	3	<b>2,013</b>	1,131
Distribution costs		<b>(4,527)</b>	(4,546)
Administrative expenses		<b>(13,450)</b>	(9,090)
Other operating expenses		<b>(616)</b>	(248)
<b>OPERATING LOSS</b>	4	<b>(4,920)</b>	(2,881)
Finance costs	5	<b>(1,405)</b>	(1,338)
Excess of fair value of net assets acquired on the cost of acquisitions of subsidiaries	6	<b>141,442</b>	–
Share of profit of a jointly controlled entity		<b>116</b>	–
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>135,233</b>	(4,219)
Taxation	7	<b>(108)</b>	(163)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>135,125</b>	(4,382)
Attributable to:			
Equity holders of the Company		<b>135,048</b>	(4,382)
Minority interests		<b>77</b>	–
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>135,125</b>	(4,382)
<b>INTERIM DIVIDEND</b>	8	<b>–</b>	–
		<b>HK cents</b>	<b>HK cent</b>
			(Restated)
<b>EARNINGS/(LOSS) PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD</b>			
– Basic	9	<b>4.44</b>	(0.16)
– Diluted		<b>4.30</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2007 (Unaudited) HK\$'000	As at 31 December 2006 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		62,044	63,877
Prepaid land lease payments		6,308	6,213
Investment property		400	400
Exploration rights	10	393,697	–
Other intangible assets		2,043	2,424
Deposit for acquisition of a company		–	15,000
Interest in a jointly controlled entity		739	623
Deferred tax assets		551	551
		<u>465,782</u>	<u>89,088</u>
<b>CURRENT ASSETS</b>			
Inventories		13,037	10,227
Trade and bills receivables	11	14,598	9,105
Prepayment, deposits and other receivables		2,447	1,716
Amount due from a jointly controlled entity		2,243	1,097
Amount due from a related company		–	2,900
Tax recoverable		14	153
Financial assets at fair value through profit or loss		286	286
Cash at banks and in hand		74,487	85,224
		<u>107,112</u>	<u>110,708</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	12	12,313	7,632
Other payables and accruals		11,654	4,902
Provision for tax		392	287
Bank and trust receipt loans		22,470	33,019
Other loans	13	16,958	–
Finance lease payables		7	47
		<u>63,794</u>	<u>45,887</u>
<b>NET CURRENT ASSETS</b>		<u>43,318</u>	<u>64,821</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>509,100</u>	<u>153,909</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans		1,539	1,765
Finance lease payables		–	1
Deferred tax liabilities		3,871	3,829
		<u>5,410</u>	<u>5,595</u>
<b>NET ASSETS</b>		<u>503,690</u>	<u>148,314</u>
<b>EQUITY</b>			
Share capital	14	64,868	59,773
Reserves		376,843	86,945
Proposed final dividend		–	299
		<u>441,711</u>	<u>147,017</u>
Minority interests		61,979	1,297
<b>TOTAL EQUITY</b>		<u>503,690</u>	<u>148,314</u>

NOTES:

**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

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

The accounting policies adopted are consistent with those set out in the Group’s annual financial statements for the year ended 31 December 2006, except for the adoption of certain new and revised HKFRSs and HKASs issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1 January 2007 and the accounting policies relating to the coal mining and exploration segment as stated below. The adoption of the new HKFRSs and HKASs has no material impact on the Group’s results and financial position for the current or prior periods.

The following new/revised standards and interpretations have been published and are relevant to the Group’s operations but are not yet effective for the current accounting period:

HKFRS 8	Operating Segment
HKAS 23 (Revised)	Borrowing Costs
HK (IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC)-Int 12	Service Concession Arrangements

The Group has not early adopted any of the above standards or interpretations. Management is in the process of assessing the impact of these standard on the Group’s results of operations and financial position.

**Exploration and mining rights**

Exploration and mining rights is measured at cost in the financial statements of individual subsidiaries. Expenditure associated with the grants or transfers of the exploration rights certificates and mining rights certificates and the exploration of mineral resources is capitalized. For business combination of newly acquired subsidiary, the exploration and mining rights is re-measured at fair value on the date of acquisition by the Group. Exploration and mining rights is assessed for impairment when the carrying amount of the exploration rights has exceeded its recoverable amount. Exploration and mining rights are amortised on a units-of-production method utilizing proved and indicated coal reserves as the depletion base.

These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company and were approved by the board of directors on 24 September 2007.

**2. SEGMENT INFORMATION**

The Group’s operating business 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 return that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the coal mining and exploration segment involves the mining and exploration of coal; and
- (ii) the gifts and toys segment involves the manufacture and sales of a variety of gifts and toys products.

There was no inter-segment sale and transfer during the period (2006: Nil).

(a) **Business segments**

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

	Coal mining and exploration		Gifts and toys		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2007	2006	2007	2006	2007	2006
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:						
Sales to external customers	<u>-</u>	<u>-</u>	<u>41,769</u>	<u>33,291</u>	<u>41,769</u>	<u>33,291</u>
Segment results	<u>(76)</u>	<u>-</u>	<u>(2,182)</u>	<u>(3,029)</u>	<u>(2,258)</u>	<u>(3,029)</u>
Unallocated other income					<u>1,686</u>	<u>1,131</u>
Unallocated expenses					<u>(4,348)</u>	<u>(983)</u>
Operating loss					<u>(4,920)</u>	<u>(2,881)</u>
Finance costs					<u>(1,405)</u>	<u>(1,338)</u>
Excess of fair value of net assets acquired on the cost of acquisitions of subsidiaries	<u>141,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>141,442</u>	<u>-</u>
Share of profit of a jointly controlled entity					<u>116</u>	<u>-</u>
Profit/(loss) before taxation					<u>135,233</u>	<u>(4,219)</u>
Taxation					<u>(108)</u>	<u>(163)</u>
Profit/(loss) for the period					<u>135,125</u>	<u>(4,382)</u>

(b) **Geographical segments**

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

	The PRC		North		European		Others		Total	
	(including Hong Kong)		America		Union					
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
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	<u>2,768</u>	<u>2,473</u>	<u>30,552</u>	<u>26,139</u>	<u>6,713</u>	<u>3,299</u>	<u>1,736</u>	<u>1,380</u>	<u>41,769</u>	<u>33,291</u>
Segment results	<u>(220)</u>	<u>(241)</u>	<u>(1,596)</u>	<u>(2,332)</u>	<u>(351)</u>	<u>(333)</u>	<u>(91)</u>	<u>(123)</u>	<u>(2,258)</u>	<u>(3,029)</u>

### 3. REVENUE AND OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue – sale of goods	<b>41,769</b>	33,291
Other income and gains		
Bank interest income	322	130
Other interest income	100	571
Rental income, net	11	13
Exchange gains, net	443	59
Sale of moulds	327	143
Others	810	215
	<b>2,013</b>	1,131

### 4. OPERATING LOSS

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

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	3,528	3,831
Amortisation of prepaid land lease payments	76	76
Amortisation of license rights	381	–
Employee benefit expense:		
Wages and salaries (including directors emoluments)	8,198	7,633
Pension and MPF costs	307	288
Share options granted to employees ( <i>note 14</i> )	2,200	–
	<b>10,705</b>	7,921

## 5. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and trust receipt loans wholly repayable within five years	1,196	1,331
Interest on other loans	203	–
Interest on finance leases	6	7
	<u>1,405</u>	<u>1,338</u>

## 6. EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED ON THE COST OF ACQUISITIONS OF SUBSIDIARIES

The amount represents the excess of the Group's 84% interest in the net fair values of Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng", formerly known as Beijing Mingrunfeng Trading Co., Ltd.) over the costs of acquisitions incurred by the Group during the period. Further details of the acquisitions are set out in notes 10 and 14 to the financial statements.

## 7. TAXATION

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Income tax provision for the period:		
Hong Kong	108	106
Elsewhere	–	–
	<u>108</u>	<u>106</u>
Deferred tax	–	57
	<u>108</u>	<u>163</u>

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

## 8. INTERIM DIVIDEND

The Board has resolved not to pay any interim dividend for the period (2006: Nil).

## **9. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earning/(loss) per share is based on the profit attributable to the equity holders of the Company for the period of HK\$135,048,000 (2006: loss of HK\$4,382,000) and the weighted average of 3,039,395,352 (2006: 2,818,570,829 (restated)) ordinary shares in issue during the period.

The calculation of diluted earning per share for the period ended 30 June 2007 is based on the profit attributable to equity holders of the Company for the period of HK\$135,048,000 and the weighted average of 3,138,097,910 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares of the Company during the period.

Diluted loss per share for the period ended 30 June 2006 is not presented because the result of the exercise of potential ordinary shares during the period would be anti-dilutive.

## **10. EXPLORATION RIGHTS**

The balance represents the fair value of the exploration rights of the Guerbanhada Coal Mine (the “Coal Mine”) arising from the Group’s acquisition of Mingrunfeng. As at 30 June 2007, the Group held an aggregate 84% equity interest in Mingrunfeng through the acquisitions (the “New Acquisitions”) of the entire share capital of Jumplex Investments Limited (“Jumplex”), First Choice Resources Limited (“First Choice”) and Wise House Limited (“Wise House”) and the contribution of capital (the “Capital Contribution”) to Mingrunfeng. Approval for the Capital Contribution has been obtained from the PRC government on 12 June 2007 and the Group has settled the remaining capital contribution balance of RMB 5 million subsequent to the balance sheet date on 9 July 2007. Further details of the New Acquisitions and the Capital Contribution were set out in the Company’s circular dated 30 March 2007.

Mingrunfeng is the legal owner of the exploration rights certificate of the Coal Mine which is located in the Inner Mongolia Autonomous Region (“Inner Mongolia”) of the People’s Republic of China (the “PRC”). According to a technical report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. (“SRK Consulting”), an independent mining and geological consultant, on 30 March 2007, the Coal Mine has estimated coal resource of 106 million tons at the general exploration 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 resource of the Coal Mine has increased to 128.86 million tons upon completion of the detailed exploration stage of exploration of the Coal Mine. The detailed exploration stage of exploration is the final stage of exploration of the Coal Mine.

The exploration rights of the Coal Mine was valued by Castores Magi (Hong Kong) Limited, an independent firm of professional valuers, by adopting the income approach and the profit split method of valuation as at 29 May 2007 (the date of the Group’s acquisition of Mingrunfeng) at a value of RMB383,067,000 (equivalent to approximately HK\$393,697,000 by adopting the exchange rate as the balance sheet date).

## 11. TRADE AND BILLS RECEIVABLES

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

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

	As at <b>30 June</b> <b>2007</b> <b>(Unaudited)</b> <i>HK\$'000</i>	As at 31 December 2006 <b>(Audited)</b> <i>HK\$'000</i>
0-30 days	12,509	4,878
31-90 days	1,857	3,799
91-180 days	49	274
181-360 days	146	154
Over 360 days	37	–
	<u>14,598</u>	<u>9,105</u>

## 12. TRADE AND BILLS PAYABLES

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

	As at <b>30 June</b> <b>2007</b> <b>(Unaudited)</b> <i>HK\$'000</i>	As at 31 December 2006 <b>(Audited)</b> <i>HK\$'000</i>
0-30 days	5,126	2,098
31-90 days	5,877	3,675
91-180 days	905	1,633
181-360 days	324	18
Over 360 days	81	208
	<u>12,313</u>	<u>7,632</u>



### 13. OTHER LOANS

The balance represented certain Renminbi denominated loans borrowed by Mingrunfeng from certain independent third parties. The loans were due for repayments on or before 31 March 2008 and bore the following interest rates:

<b>Principal amount</b>	<b>Interest rate</b>
RMB2,000,000	Interest free
RMB13,500,000	1.5% per month
RMB1,000,000	1.6% per month

The loans were guaranteed by Jumplex, First Choice and Wise House, being wholly owned subsidiaries of the Company which held an aggregate 33% equity interest in Mingrunfeng as at the balance sheet date, and Mr. Yang Runzhi, which was a minority shareholder interested in 16% equity interest of Mingrunfeng as at the balance sheet date. The Group has completed the acquisitions of Jumplex, First Choice and Wise House during the period, the details of which are set out in note 14 to the financial statements.

### 14. SHARE CAPITAL

	<b>As at 30 June 2007 (Unaudited) HK\$'000</b>	<b>As at 31 December 2006 (Audited) HK\$'000</b>
<i>Authorised:</i>		
<b>5,000,000,000 ordinary shares of HK\$0.02 each</b>	<b>100,000</b>	100,000
	<b>Number of ordinary shares of HK\$0.02 each</b>	<b>Par value HK\$'000</b>
<i>Issued and fully paid:</i>		
<b>At 1 January 2007</b>	2,988,657,000	59,773
<b>Consideration shares issued for acquisitions of subsidiaries</b>	243,792,280	4,876
<b>New shares issued on exercise of share options</b>	10,975,200	219
<b>At 30 June 2007</b>	<b>3,243,424,480</b>	<b>64,868</b>

During the period, the Group has completed the acquisitions of the entire issued share capital of Jumplex, First Choice and Wise House by the issue of 243,792,280 consideration shares. 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 as at the date of issue and allotment of the shares on 29 May 2007.

Jumplex, First Choice and Wise House held an aggregate 33% equity interest in Mingrunfeng as at the balance sheet date. Mingrunfeng is the holder of the exploration rights of the Guerbanhada Coal Mine located in Inner Mongolia of the PRC. Further details of the acquisitions were set out in the Company's circular dated 30 March 2007.

## Share options

The Company operates a share option scheme for eligible participants to subscribe for new shares of the Company. A summary of the terms of the share option scheme was disclosed in the Company's 2006 annual report.

During the period ended 30 June 2007, options were exercised to subscribe for 10,975,200 shares in the Company at an exercise price of HK\$0.1016 per share while 217,600 share options have been lapsed. As at 30 June 2007, the Company had 109,767,200 outstanding share options with exercise price of HK\$0.1016 per share. Subsequent to the balance sheet date, options were exercised to subscribe for 44,588,400 shares in the Company at an exercise price of HK\$0.1016 per share.

Subsequent to the balance sheet date, the Company has granted 3,300,000 additional share options to an employee, which enable the employee to subscribe for 3,300,000 shares of the Company at an exercise price of HK\$0.74 per share during the period from 1 July 2008 to 18 June 2016. Further details of such share options are set out in note 18(ii) to the financial statements.

During the period ended 30 June 2007, HK\$2,200,000 (2006: nil) of the share-based payment has been charged to the condensed consolidated income statement (note 4) and the corresponding amount has been credited to the equity compensation reserve.

## 15. CONNECTED AND RELATED PARTY TRANSACTIONS

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

### (i) Sales of goods

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Sales of goods to Marketing Resource Group, Inc., a jointly controlled entity	<u>3,146</u>	<u>–</u>

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

### (ii) Purchase of services

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Product development, sales and marketing services provided by Mr. Sanders and Miracles For Fun (USA), Inc.	<u>739</u>	<u>693</u>

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

## 16. OPERATING LEASE ARRANGEMENT

### (i) As lessor

At 30 June 2007, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	<u>11</u>	<u>13</u>

### (ii) As lessee

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	<u>117</u>	<u>89</u>

## 17. CAPITAL COMMITMENTS

Pursuant to an acquisition agreement entered into between the Group and Mr. Yang Runzhi ("Mr. Yang"), the Group shall acquire 16% equity interest in Mingrunfeng held by Mr. Yang after completion of the Capital Contribution at a consideration of approximately HK\$39 million which will be satisfied by the allotment and issue of 118,207,720 consideration shares at an issue price of HK\$0.33 per share (the "Second Acquisition"). Subsequent to the balance sheet date, the Second Acquisition has been approved by the PRC government authorities on 19 September 2007.

Further details of the Second Acquisition were set out in the Company's circular dated 30 March 2007.

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

## 18. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in the financial statements, the Group had the following post balance sheet events:

### (i) Acquisition of subsidiaries

On 16 August 2007, the Group entered into an acquisition agreement with Gold Dynasty Investments Limited (the "Vendor") to acquire the entire issued share capital of Lucky Dragon Resources Limited ("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 which in turn owns (i) the mining rights of the Huanghuashan Coal Mine and (ii) the exploration rights of the Bayanhushuo Coalfield. Mr. Yu Won Kong, Dennis, a substantial shareholder of the Company who is interested in approximately 10.48% of the issued share capital of the Company as at the date of this report, is a director of and beneficially interested in 22.5% of the issued share capital of the Vendor. Details of the acquisition agreement were set out in the Company's announcement dated 4 September 2007.

### (ii) Exercise and grant of share options

Subsequent to the balance sheet date and up to the date of this report, a total of 44,588,400 share options have been exercised by the option holders which resulted in the allotment and issue of 44,588,400 new ordinary shares in the Company at an exercise price of HK\$0.1016 per share for a total consideration of approximately HK\$4,530,000.

Subsequent to the balance sheet date on 5 July 2007, the Company has granted 3,300,000 share options to an employee, which enable the employee to subscribe for 3,300,000 shares of the Company at an exercise price of HK\$0.74 per share during the period from 1 July 2008 to 18 June 2016. The 3,300,000 share options will be vested to the employee in 3 lots of 1,100,000 share options each for the periods from 1 July 2008 to 30 June 2009, from 1 July 2009 to 30 June 2010, and from 1 July 2010 to 30 June 2011, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 June 2007, the Group recorded turnover of approximately HK\$41.8 million (2006: HK\$33.3 million), representing an increase of approximately 25% as compared with the first half of 2006. The Group's profit attributable to shareholders for the year was approximately HK\$135.0 million (2006: net loss of HK\$4.4 million). Basic earning per share for the period was HK4.44 cents (2006: loss per share of HK0.16 cent (restated)). The Board has resolved not to pay any interim dividend for the period (2006: Nil).

For the first half of 2007, the Group engaged in the design, manufacture and sale of gift and toy products and diversified into the mining and exploration of coal through the acquisition of Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng", formerly known as Beijing Mingrunfeng Trading Co., Ltd.). During the period, the Group has experienced improved sales performance as a result of the improvement of the global economy and the increased marketing effort of the Group. In addition, the distribution of decorative flags and garden products through the "Toland" brand name also contributed to the increase in revenue for the period.

During the period, the Group recorded a gain of approximately HK\$141.4 million (2006: nil) arising from the excess of the Group's share of the net fair values of the net assets in Mingrunfeng over the costs of our acquisitions. On the other hand, the administrative expenses of the Group increased by approximately HK\$4.4 million from approximately HK\$9.1 million in the first half of 2006 to approximately HK\$13.5 million in the first half of 2007. Apart from the overall increase in administrative expenses as a result of the expansion of the Group's operations, the share option costs of approximately HK\$2.2 million (2006: nil) in the first half of 2007 in relation to the vesting of share options granted to our staff in 2006 also contributed to such increase in administrative expenses. Such share option costs was made in accordance with the relevant Hong Kong Financial Reporting Standards and did not have any impact on the cash flow of the Group for the period.

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 HK74.5 million as at the balance sheet date. The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, approximately 85% of such borrowings bore interest at fixed lending rate. At 30 June 2007, the Group's bank and other borrowings amounted to approximately HK\$41.0 million, out of which approximately 96% 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 8% as at 30 June 2007. Net current assets at 30 June 2007 was approximately HK\$43.3 million and the current ratio was approximately 168%. The Group had not used any financial instruments for hedging during the period.

At 30 June 2007, certain of the Group's land use rights and leasehold land and buildings with carrying values of approximately HK\$1.8 million and HK\$9.7 million, respectively, were pledged to secure general banking facilities granted to the Group.

As at 30 June 2007, the Group did not have any contingent liabilities (2006: Nil).

At 30 June 2007, the Group had a total of 850 employees. The Group always maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

### **Acquisition of Mingrunfeng**

During the period, through the acquisitions of Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited and the contribution of capital to Mingrunfeng, the Group held an aggregate 84% equity interest in Mingrunfeng as at 30 June 2007. Mingrunfeng is the holder of the exploration rights of the Guerbanhada Coal Mine located in the Inner Mongolia Autonomous Region ("Inner Mongolia") of the People's Republic of China (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 estimated coal resource of 106 million tones 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 resource of the Guerbanhada Coal Mine has increased to 128.86 million tons as a result of the completion of the detailed exploration stage of exploration. The detailed exploration stage of exploration is the final stage of exploration for coal mines.

Subsequent to the balance sheet date, the acquisition of the remaining 16% equity interest in Mingrunfeng from Mr. Yang Runzhi has been approved by the PRC government authorities on 19 September 2007. Further details of the acquisition were set out in the Company's circular dated 30 March 2007.

### **Further Acquisition of Coal Mines**

On 16 August 2007, the Group entered into an acquisition agreement to acquire the entire issued share capital of Lucky Dragon Resources Limited ("Lucky Dragon") at a total consideration of HK\$840 million (subject to certain adjustments). Lucky Dragon owns the entire equity interest in Tongliao City Heng Yuan Mining Company Limited which in turn owns (i) the mining rights of the Huanghuashan Coal Mine and (ii) the exploration rights of the Bayanhushuo Coalfield. Details of the acquisition agreement were set out in the Company's announcements dated 4 September 2007.

Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia of the PRC. Pursuant to a reserve assessment report compiled by Team 472 of the Inner Mongolia Bureau of Coal Field Geology in 2004, Huanghuashan Coal Mine has estimated coal reserves of approximately 5.42 million tonnes with a site area of 1.71 km<sup>2</sup>. The current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB250 per tonne.

Bayanhushuo Coalfield is located in Xilinguolemeng of Inner Mongolia. Heng Yuan has appointed Team 104 of the Inner Mongolia Bureau of Coal Field Geology to perform exploration works for the coalfield and the general exploration stage is expected to be completed by the end of October 2007. Based on the progressive results of the exploration, the amount of the coal reserves in the Bayanhushuo Coalfield is estimated to be more than 400 million tonnes in a site area of 51.34 km<sup>2</sup>. The current at-pit market price of the coal expected to be extracted from the Bayanhushuo Coalfield is approximately RMB190 per tonne.

### **Use of Proceeds**

The net proceeds from the Company's open offer of new shares in 2006 amounted to approximately HK\$37 million. The board of directors intends to apply the net proceeds as to (i) approximately HK\$2 million towards upstream and downstream integration in the principal line of business of the Group to enhance its profitability, including but not limited to the distribution of fabrics or chemical products or the production of packaging materials; (ii) approximately HK\$25 million towards possible diversified investments in the agricultural, energy and/or resources industries or other projects which the Board considers appropriate; and (iii) the remaining balance of approximately HK\$10 million for general working capital of the Group. As at the date of this report, approximately HK\$21 million of the net proceeds has been paid by the Group in relation to the capital contribution of Mingrunfeng.

Other than the foregoing, the proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 January 2001, after deduction of related expenses, amounted to approximately HK\$43 million. As of 30 June 2007, the net 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 acquisition 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 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 the shareholders.

### **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 70% of PRC's energy consumption, we believe that 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 acquisitions of Lucky Dragon, the aggregate amount of coal reserves of the Group will be expanded to over 530 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.

For our toys and gifts business, the Group is a licensed manufacturer for the mascot toy products of the Beijing 2008 Olympic. We have obtained the license to manufacture different toys categories including plush toys, plastic toys, inflatable toys and electronic toys. In addition, we are the sole manufacturer which is able to produce nano-technology Olympic plush toys by applying the licensed Swedish Texcote Technology. We believe the sales of the Olympic toy products will peak in the year of 2008 and will enhance our turnover and profitability.

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

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

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

### **CODE OF CORPORATE GOVERNANCE PRACTICES**

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

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Code during the period.



## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk) under “Latest Listed Companies Information” and on the website of the Company at [www.kiuhung.com](http://www.kiuhung.com) under “Latest Documents” of the “Investor” section. The 2007 interim report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the above websites in due course.

By order of the Board  
**HUI Kee Fung**  
*Chairman*

Hong Kong, 24 September 2007

*As at the date of this announcement, the board of directors of the Company consists of three executive directors, Mr. Hui Kee Fung, Mr. Hui Ki Yau and Madam Hui Hung Tan, Teresa and three independent non-executive directors, Mr. Peng Guanghui, Mr. Kung King Ching, Conrad and Mr. Tang Rongzu.*