VISION AND ACTION
FOR A BETTER WAY FORWARD

KH ENERGY

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

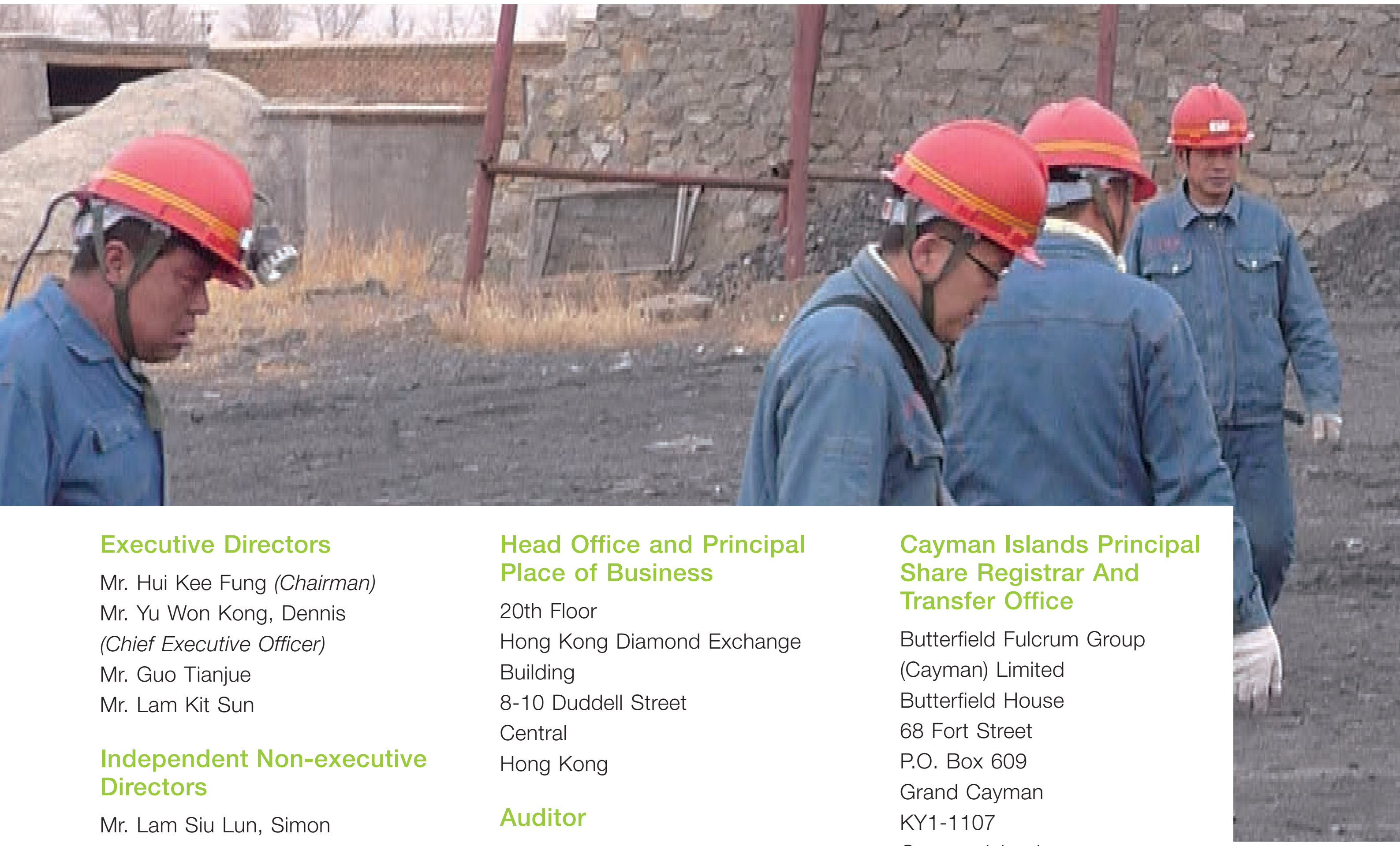
(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 00381)

Explore and construct a sustainable future

Designed & Produced by **HeterMedia Services Limited**

Contents

Corporate Information



Executive Directors

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

Independent Non-executive Directors

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Jin Peihuang
(appointed on 26 May 2011)
Mr. Mohammed Ibrahim Munshi
(retired on 26 May 2011)

Company Secretary

Mr. Cheung Kai Fung CPA, FCCA

Registered Office

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head Office and Principal Place of Business

20th Floor
Hong Kong Diamond Exchange
Building
8-10 Duddell Street
Central
Hong Kong

Auditor

PricewaterhouseCoopers
22/F., Prince's Building
Central
Hong Kong

Company's Website

http://www.381energy.com

Principal Bankers

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

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

Cayman Islands Principal Share Registrar And Transfer Office

Butterfield Fulcrum Group
(Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
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

Financial Highlights

Financial Performance

for the year ended 31 December	2011 HK$'000	2010 HK$'000	Change
Turnover	**184,550**	186,095	0.8%
Gross profit	**38,342**	39,453	2.8%
(Loss)/profit for the year	**(40,187)**	4,971	N/A
(Loss)/profit attributable to shareholders	**(40,539)**	6,313	N/A
Basic (loss)/earnings per share (in HK cents)	**(0.71)**	0.13	N/A
Total assets	**976,425**	951,152	2.7%
Shareholders' equity	**681,467**	450,834	51.2%

Chairman's Statement

Power up resources for growth


Chairman's Statement

" Kiu Hung aims to become a competitive, successful and leading energy company "

On behalf of the board of the directors (the "Board") of Kiu Hung Energy Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2011 (the "Year").

Results and Dividends

The past year was a challenging period for the Group. During the Year, the Group recorded a turnover of approximately HK$184.6 million (2010: HK$186.1 million), representing a decrease of approximately 0.8% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$40.5 million (2010: profit attributable to shareholders of HK$6.3 million). The loss was mainly due to the decrease in gain arising on changes in fair value of the Company's financial liabilities at fair value through profit or loss and an increase in loss of the toys and gifts business of the Group. Basic loss per share for the Year was 0.71 HK cents (2010: Basic earnings per share 0.13 HK cents).

Business Review

Coal Business

As reported in the last interim report, Huanghuashan Coal Mine ("HCM") had been under construction to further upgrade its mining structure in order to boost its production capacity. As such, there was no revenue contributed from HCM during the Year. The construction plan is anticipated to complete by end of the second quarter of 2012 and HCM will commence production again in the third quarter of 2012.

For the Guerbanhada Coal Mine ("GCM") and Bayanhushuo Coal Field ("BCF"), we are in the progress of applying the mining license for GCM and BCF during the Year. For GCM, the master planning has been agreed by the Development and Reform Commission of Inner Mongolia Autonomous Region ("Inner Mongolia"), the People's Republic of China (the "PRC") and has been submitted to the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC for their approval. We have been closely following up the application in our best endeavor and are very confident and determined to obtain these approvals for the master planning of GCM successfully. For BCF, we are compiling the master planning of BCF during the Year and expect to submit the master planning to the Development and Reform Commission of Inner Mongolia in late 2012 or early 2013.

Chairman's Statement

Progress was made during 2011. We will overcome all obstacles in order to achieve the commencement of the production of HCM and getting approvals of the master planning of GCM and BCF in the coming year.

Toys and Gifts Business

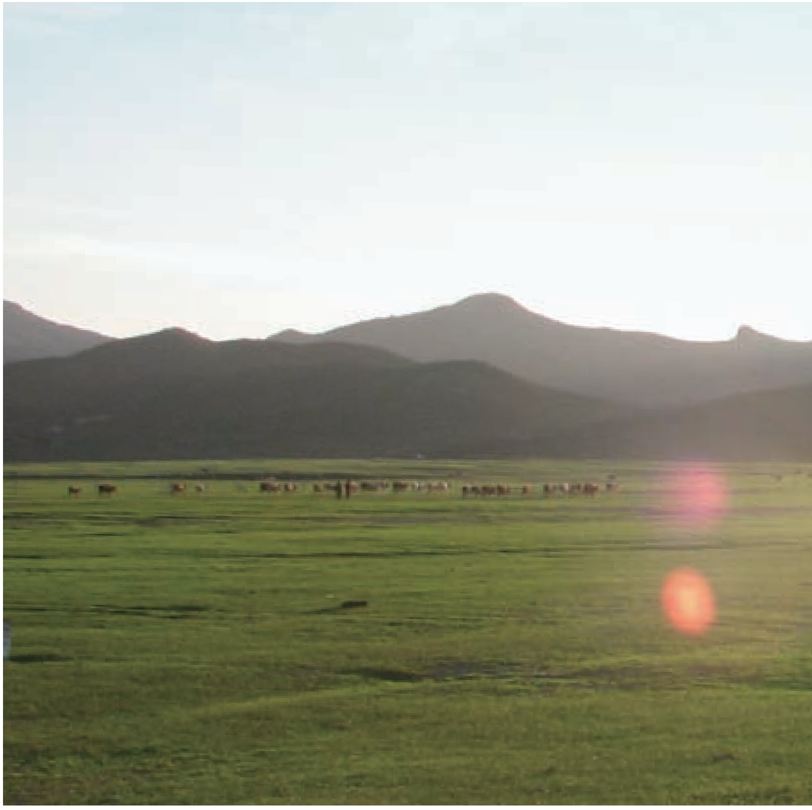
Turnover from toys and gifts business was approximately HK$184.6 million (2010: HK$175.0 million), representing an increase of approximately 5.5% as compared to the previous year. The gross profit ratio of the toys and gifts business was 20.8% for the Year (2010: 23.6%). The decrease in gross profit ratio was mainly due to the increase in the price of raw materials, salaries, rent and utilities during the Year.

Prospects

Looking ahead, we are confident that the coal industry in China will continue to develop steadily, which the production volume and coal import volume will reach a higher level in the coming years due to the growth in coal consumption in China.

As the Group has sizable coal resources, we will be able to tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value.

In the future, we will continuously make enormous efforts to reinforce the interconnection among coal production and sales stage, ensure the safety level of production, which would make certain the Group to grow along with the rapid development of coal industry. We will also continue to explore other investment opportunities in the energy and natural resources industries that have earning potentials in order to expand our existing operations.



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 dedicated staff in previous year.

Hui Kee Fung
Chairman

Hong Kong, 28 March 2012

Management Discussion and Analysis

Financial Highlights

During the financial year ended 31 December 2011 (the "Year"), the Group recorded a turnover of approximately HK$184.6 million (2010: HK$186.1 million), representing a decrease of approximately 0.8% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$40.5 million (2010: profit attributable to shareholders HK$6.3 million). Basic loss per share for the Year was 0.71 HK cents (2010: Basic earnings per share 0.13 HK cents).

The increase in the Group's loss was mainly attributable to (i) a decrease in gain arising on change in fair value of the Company's financial liabilities at fair value through profit or loss amounting to approximately HK$40.0 million and (ii) an increase in loss of the toys and gifts business of the Group of HK$13.6 million as a result of the increase in the price of raw materials, salaries, rent and utilities during the Year.

Dividend

The Board does not recommend the payment of any dividend for the Year (2010: Nil).

Business and Operational Review

Segmental Information Analysis

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

Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business was approximately HK$184.6 million (2010: HK$175.0 million), representing an increase of approximately 5.5% as compared to the previous year. The turnover from the toys and gifts business remained stable during the Year.

The gross profit ratio of the toys and gifts business was 20.8% for the Year (2010: 23.6%). The decrease in gross profit ratio is mainly due to the increase in the price of raw materials, salaries, rent and utilities during the Year.

Exploration and mining of natural resources

The Group owns the mining right of Huanghuashan Coal Mine and the exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region, the People's Republic of China (the "PRC") with total estimated coal resources of approximately 507.9 million tonnes under the JORC Code as follows:

	Inferred Resources (Million tonnes)
Guerbanhada Coal Mine ("GCM")	106.00
Huanghuashan Coal Mine ("HCM")	7.85
Bayanhushuo Coal Field ("BCF")	394.05*
Total	507.90

* *In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) during the Year. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.*

HCM commenced production in December 2009. During the Year, HCM had been under construction to further upgrade its mining structure in order to boost its production capacity. As such, there was no revenue contributed from HCM during the Year (2010: HK$11.1 million). The construction plan is anticipated to complete by the end of the second quarter of 2012 and HCM will commence production again in the third quarter of 2012. HCM is located in Tongliao City of Inner Mongolia Autonomous Region ("Inner Mongolia"), the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, HCM has an estimated coal resources of approximately 7.85 million tonnes of semi-anthracite coal. There is no material change in the amount of the estimated coal resources of HCM as at the date of this annual report.

During the Year, the government of Tongliao City of Inner Mongolia announced a proposal to merge the coal mines located in Tongliao City, in which HCM is located. However, the details of the proposed merger have not yet been released by the government of Tongliao City and there is no material impact on the operation of HCM up to the date of this annual report.

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, GCM has an estimated coal resources of approximately 106 million tonnes of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal coal market. There is no material change in the estimated coal resources of GCM as at the date of this annual report.

The master planning (總體規劃) of GCM has been agreed by the Development and Reform Commission of Inner Mongolia (內蒙古自治區發展和改革委員會) and has been submitted to the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of the PRC (中華人民共和國國家能源局) for their approvals during 2010. The licence period of the exploration right of GCM was from 22 September 2009 to 22 September 2011 and was subsequently renewed to another period from 23 September 2011 to 22 September 2013. The Directors have been closely following up the application in its best endeavour and are very confident and determines to obtain the approvals for the master planning of GCM from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC successfully.

Management Discussion and Analysis

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, BCF has an estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. Currently, the Group is compiling the master planning (總體規劃) of BCF and expects to submit the master planning to the Development and Reform Commission of Inner Mongolia in late 2012 or early 2013. In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) during the Year. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.

The licence period of the exploration right of BCF is from 19 June 2010 to 4 July 2012 and is subject to renewal.

Geographical Information

During the Year, revenue in the North America (includes the USA and Canada) amounted to approximately HK$147.3 million compared to approximately HK$146.5 million last year and represented 79.8% of the Group's total revenue. Revenue in the European Union (includes Spain, Italy, France and the United Kingdom) recorded an increase of approximately 27.8% from approximately HK$19.8 million last year to approximately HK$25.3 million for the Year which represented 13.7% of the Group's total revenue.

Other Income

Other income for the Year decreased by approximately 62.7% to approximately HK$2.5 million as compared to approximately HK$6.7 million in the previous year. The decrease was mainly due to a decrease in fair value gain on investment properties of approximately HK$4.2 million during the Year.

Selling and Distribution Costs

Selling and distribution expenses for the Year increased by approximately 3.8% to approximately HK$24.5 million as compared to approximately HK$23.6 million in the previous year. There was no material change in the selling and distribution costs for the Year as compared to the previous year.

Administrative Expenses

The amount of administrative expenses for the Year is comparable to previous year.

Other Gains, Net

Other gains, net for the Year decreased by approximately 81.6% to approximately HK$9.6 million as compared to approximately HK$52.3 million in the previous year. The decrease was mainly due to a decrease in the gain arising on change in fair value of the Company's financial liabilities at fair value through profit or loss of approximately HK$40.0 million.

Finance Costs

Finance costs for the Year decreased by approximately 49.3% to approximately HK$3.6 million as compared to approximately HK$7.1 million in the previous year. The decrease in finance costs was mainly due to the decrease in interest expenses on other loans of approximately HK$4.4 million.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had cash and bank balances of approximately HK$13.0 million at 31 December 2011 (2010: HK$49.7 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2011, the Group's borrowings amounted to approximately HK$63.4 million (2010: HK$38.3 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi, of which approximately 69.0% (2010: 63.6%) bore interest at fixed lending rates.

The Group did not have any financial liabilities at fair value through profit or loss at 31 December 2011 (2010: HK$245.3 million). The decrease was due to the conversion of the Company's convertible notes, being designated and disclosed as "financial liabilities at fair value through profit or loss" in the consolidated statement of financial position, of approximately HK$245.3 million into 754,721,872 new ordinary shares of the Company during the Year.

The gearing ratio of the Group calculated as the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity was approximately 13.9% at 31 December 2011 (2010: 6.2%).

Net current liabilities of the Group at 31 December 2011 was approximately HK$34.8 million (2010: Net current assets: HK$21.3 million) and the current ratio of the Group was approximately -32.2% (2010: 27.5%).

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.

At 31 December 2011, certain property, plant and equipment, prepaid land lease payments, investment properties, mining right and trade receivables held by the Group with aggregate carrying value of approximately HK$86.9 million (2010: 55.7 million), were pledged to secure general banking facilities granted to the Group.

At 31 December 2011, the Group had capital commitments, representing capital expenditure contracted for property, plant and equipment of the Group, of approximately HK$0.8 million (2010: Nil).

At 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

Termination of a very substantial acquisition in eight coal mines in the Guizhou Province

On 8 July 2010 (as supplemented by the first and second supplemental agreements dated 20 August 2010 and 22 December 2010), the Group has entered into a conditional contract to acquire eight coal mines in the Guizhou Province of the PRC (the "Mines") at a total consideration for not more than HK$8,889,110,000 (the "Acquisition"). A technical adviser (the "Technical Adviser") has been appointed by the Group as the competent person to prepare the technical reports (the "Technical Reports") on the estimated coal resources of the Mines. Subsequently, the Group was informed by the Technical Adviser that additional exploration work and time are required to prepare the Technical Reports and there was no definite schedule as to when additional exploration work could be done. The Group and the vendor considered that it would not be in common interests to proceed with the Acquisition and therefore entered into a termination agreement to terminate the Acquisition on 31 May 2011. Please refer to the Company's announcement dated 31 May 2011 for the details.

Business Prospects and Future Plans for Material Investments

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

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

In 2012, the Group will focus on the continuous development of our coal energy business. As the Group has an aggregate amount of existing coal resources of approximately 507.9 million tonnes, we will be able to tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value. With the committed efforts of the dedicated management and staff, we are confident and optimistic on the business prospects of the Group.

Capital Structure

At 31 December 2011, the capital structure of the Company is constituted of 5,769,304,672 ordinary shares of HK$0.02 each. Apart from the ordinary shares in issue, the capital instruments in issue of the Company include share options to subscribe for the Company's shares.

During the Year, 754,877,872 new ordinary shares have been issued by the Company (2010: 587,120,000 shares) as a result of issuing (i) 754,721,872 new ordinary shares upon the conversion of the Company's convertible notes

(2010: 403,200,000 shares); and (ii) 156,000 new ordinary shares upon the exercise of share options by the option holders (2010: 3,920,000 shares).

At 31 December 2011, 136,042,600 share options remained outstanding (2010: 142,198,600 share options).

The Group considers that it is beneficial to the Company and the shareholders as a whole to raise capital for the future business development of the Group by way of placing new shares as it will broaden the capital and shareholder base of the Company thereby increasing the liquidity of the shares. Subsequent to the balance sheet date, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK$0.06 per share to not less than six independent investors on 1 February 2012. The net subscription price (after deducting the placing expenses) is approximately HK$0.058 per share. The net proceeds of approximately HK$11.6 million would be used as the general working capital of the Group. The subscription of new ordinary shares of the Company was completed and the Company's issued ordinary shares have been increased from 5,769,304,672 ordinary shares to 5,969,304,672 ordinary shares on 13 February 2012. Please refer to the Company's announcement dated 1 February 2012 for the details.

Employment, Training and Development

At 31 December 2011, the Group had a total of 785 employees (2010: 709 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 51, has been appointed as executive director and chairman of the Company since November 2000. He has over 20 years of experience in various industries. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management College, an Adjunct Professor in Faculty of Business of City University of Hong Kong, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the PRC, the Honorary Life Chairman of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Honorable Chairman of The Fujian Putian University in the PRC, the Chairman of Xu A Qiong Foundation of Putian and an Honorary Citizen of Putian, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. Yu Won Kong, Dennis, aged 62, has been appointed as executive director since October 2009. He is also the chief executive officer of the Company and has over 20 years of experience in financial investment field. From 2003 to 2006, Mr. Yu was a director of Fortuna International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the period from 1995 to 2003, he acted as executive director respectively in several listed companies in Australia, Frankfurt and NASDAQ and was responsible for identifying acquisition targets, raising fund, and monitoring those companies' direct investment activities in the PRC. Mr. Yu is also the chairman and executive director of Ruifeng Petroleum Chemical Holdings Limited, formerly known as Thinsoft (Holdings) Inc, a company listed on the Growth Enterprise Market of the Stock Exchange (the "GEM").

Mr. Guo Tianjue, aged 72, has been appointed as executive director since October 2009. He graduated from Wuhan University with a bachelor's degree in science. From 1963 to 1975, Mr. Guo held the position of engineer of Nuclear Power Institute of China. From 1975 to 1983, Mr. Guo was the chief engineer and held many other managerial positions of Department of Nuclear Power, Ministry of Nuclear Industry. From 1983 to 1986, Mr. Guo was the chief secretary and held many other managerial positions of Guangdong Nuclear Power Construction Command Office and Guangdong Nuclear Power Joint Venture Co. Ltd. Mr. Guo was awarded an Honor Certificate from government of the PRC in October 1985 for his long-standing contribution to the nuclear industry. Since 1987, Mr. Guo served as director or senior consultant of a number of financial institutions, securities, energy and investment firms in the mainland China and Hong Kong. Mr. Guo has accumulated over 30 years of experience in economics, finance, securities and enterprise management. Currently, Mr. Guo is also the board member of China Mergers & Acquisitions Association of All-China Federation of Industry & Commerce and the honorary president of China Universities Alumni (Hong Kong) Association.

Mr. Lam Kit Sun, aged 34, has been appointed as executive director since October 2009. He has over 10 years of experience in the field of financial reporting, financial management and audit experience in Greater China area and Hong Kong. Mr. Lam has worked in an international accountancy firm in Hong Kong for over 4 years and has been the company secretary and qualified accountant of China Leason Investment Group Co. Limited, a company listed on the GEM. Mr. Lam is a practicing member of the Hong Kong Institute of Certificate Public Accountants. Mr. Lam was the non-executive director of Ruifeng Petroleum Chemical Holdings Limited, formerly known as Thinsoft (Holdings) Inc, a company listed on the GEM from 11 August 2008 to 6 July 2011.

Independent Non-Executive Directors

Mr. Lam Siu Lun, Simon, aged 62, has been appointed as independent non-executive director since October 2009. He graduated from the University of Hong Kong in 1973. After graduation, he worked at KPMG London and Hong Kong and obtained his qualification as a Chartered Accountant and Certified Public Accountant from the Institute of Chartered Accountants in England and Wales and Hong Kong Institute of Certified Public Accountants respectively. Mr. Lam has been a practicing accountant for over 19 years and is the proprietor of Messrs. S. L. Lam & Company. He has served as a member of the Insider Dealing Tribunal on a number of occasions. He is an independent non-executive director and audit committee member of Lifestyle International Holdings Limited, and Le Saunda Holdings Ltd, companies whose securities are listed on the Stock Exchange.

Mr. Zhang Xianmin, aged 58, has been appointed as independent non-executive director since October 2009. He graduated from China Central Radio and Television University with a degree in administration. Mr. Zhang currently holds the following positions: Chairman of magazine "Coastline", Part-time Professor of Xiamen University, Part-time Professor of Zhongnan University of Economics and Law, Standing Committee Member of Think Tank of Guangzhou, Chief Coordinator of Aid-the-Poor & Aid-the-Students Programme of Hong Kong Society for the Promotion of Virtue, Deputy Secretary-General of China Economics Award Administration Committee and Director of Hong Kong Branch, China Council for the Promotion of Peaceful National Reunification. In addition, he once served as Chairman of China Economic & Culture Fund in Hong Kong and Deputy Chairman of Shenzhen Association of Enterprises with Foreign Investment.

Mr. Jin Peihuang, aged 68, has been appointed as independent non-executive director since May 2011. Mr. Jin graduated from Jiangxi Mining Institute in 1964, specialist in underground mining of coal. Mr. Jin has over 39 years of experience in coal mining industry. He has been working in Feng-Feng Mine Administration Office of Hebei Province, Ministry of Coal Industry and China Coal Construction Group Corporation. He was a professor-grade senior engineer before his retirement in 2003.

Senior Management

Mr. Cheung Kai Fung, aged 37, is the chief financial officer and company secretary of the Company. Mr. Cheung holds a bachelor in business administration degree in information and systems management from The Hong Kong University of Science and Technology. Mr. Cheung is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was the group financial controller, qualified accountant and joint company secretary of China Sunshine Paper Holdings Company Limited, a company listed on the main board of the Stock Exchange, prior to joining the Company. Mr. Cheung has over 10 years of finance, investor relations and audit experience.

Mr. Yang Runzhi, aged 57, is the managing director of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited, the wholly owned subsidiary of the Company. 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., a subsidiary of the China Coal Group. He has in-depth knowledge in the sales and marketing of coals, processing of coal products and purchasing of coal mine machinery and equipment.

Mr. Hui Ki Yau, aged 50, is the president of the Group's toys and gifts business. He is responsible for the operations and the sales and marketing functions of the toy and gift business of the Group. Mr. Hui has over 20 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 43, is the operation manager of the Group's toys and gifts business. Madam Hui has over 16 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

Report of the Directors

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2011.

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 consolidated financial statements.

Segment Information

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2011 is set out in note 6 to the consolidated financial statements.

Results and Dividends

The Group's result for the year ended 31 December 2011 and the state of affairs of the Company and of the Group at that date are set out in the consolidated financial statements on pages 32 to 36 of this annual report.

The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2011.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

Investment Properties

Details of the Group's investment properties are set out in note 14 to the consolidated financial statements.

Borrowings

Details of the borrowings of the Group as at 31 December 2011 are set out in note 26 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 32 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2011, the Company had distributable reserves of approximately HK$565.9 million (2010: HK$356.2 million). Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the contributed surplus and share premium of the Company of approximately HK$125.2 million (2010: HK$125.2 million) and approximately HK$976.9 million (2010: HK$758.1 million), respectively, at 31 December 2011 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.

Five Years Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 104 of this annual report.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities

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

Charitable Contributions

During the year, the Group made charitable contributions totaling approximately HK$313,000 (2010: HK42,000).

Retirement Benefits Schemes

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

The total cost charged to the consolidated income statement of approximately HK$2,407,000 (2010: approximately HK$2,470,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2010: Nil) was available at 31 December 2011 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 2011 in respect of the retirement of its employees.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 73.1% of the total sales for the year and sales to the largest customer included therein accounted for approximately 41.0%. Purchases from the Group's five largest suppliers accounted for approximately 28.9% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 7.7%.

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

Directors

The directors of the Company during the year were:

Executive directors:

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

Independent non-executive directors:

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Jin Peihuang *(appointed on 26 May 2011)*
Mr. Mohammed Ibrahim Munshi *(retired on 26 May 2011)*

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

In accordance with article 87 of the Company's articles of association, Mr. Hui Kee Fung, Mr. Guo Tianjue and Mr. Zhang Xianmin will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Profile of Directors and Senior Management

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 16 to 17 of this annual report.

Directors' Service Contracts

Mr. Hui Kee Fung ("Mr. Hui") has entered into a service contract with the Company for an initial term of three years commencing on 1 July 2009 ("Service Period"), which may be terminated by either party thereto by giving to the other three months' prior notice in writing. During the Service

Period, if the Company terminates the service contract by giving termination notice, the Company shall pay Mr. Hui in cash all outstanding salary and amount payable to Mr. Hui.

Mr. Yu Won Kong, Dennis and Mr. Guo Tianjue have entered into a service contract with the Company for an initial term of two years commencing on 22 October 2011, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Lam Kit Sun has entered into a service contract with the Company for an initial term of two years commencing on 27 October 2011, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

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

Term of Non-Executive Directors

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

Directors' Interests in Contracts

Save for transactions as disclosed in notes 27 and 36 to the consolidated financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Directors' Interests in Shares

As at 31 December 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Name of director	Number or attributable number of shares held or short positions	Interest of controlled corporation	Capacity Interest of child under 18 or spouse	Beneficial owner	Approximate percentage or attributable percentage of shareholdings
Yu Won Kong, Dennis	583,536,821(L)	–	14,500,000(L)	569,036,821(L)	10.11%
Hui Kee Fung *(Note)*	775,500,000(L)	767,500,000(L)	–	8,000,000(L)	13.44%
Guo Tianjue	8,000,000(L)	–	–	8,000,000(L)	0.14%
Lam Kit Sun	8,000,000(L)	–	–	8,000,000(L)	0.14%
Lam Siu Lun, Simon	6,000,000(L)	–	–	6,000,000(L)	0.10%
Zhang Xianmin	6,000,000(L)	–	–	6,000,000(L)	0.10%

L: Long Position

Note:

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

Save as disclosed above, none of the directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, 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 contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

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

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") which became effective on 28 May 2002. Pursuant to the Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for the shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share.

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

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

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

	Number of share options					
Grantee	**Outstanding at 1 January 2011**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 31 December 2011**	**Exercise price** HK$
Executive directors	34,000,000	–	–	–	34,000,000	0.4000
	34,000,000	–	–	–	34,000,000	0.6000
Independent non-executive directors	9,000,000	–	–	(3,000,000)	6,000,000	0.4000
	9,000,000	–	–	(3,000,000)	6,000,000	0.6000
Employees	46,898,600	–	(156,000)	–	46,742,600	0.1016
	3,300,000	–	–	–	3,300,000	0.7400
	3,000,000	–	–	–	3,000,000	0.6000
	3,000,000	–	–	–	3,000,000	0.4240
	142,198,600	–	(156,000)	(6,000,000)	136,042,600	

Further details of the exercise periods of the share options are disclosed in note 32 to the consolidated financial statements.

Substantial Shareholders

So far as is known to any director or chief executive of the Company, as at 31 December 2011, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

		Capacity	
Name of Shareholders	**Number of shares or underlying approximate shareholding**	**Beneficial owner**	**Interest of child under 18 or spouse**
Ho Siu Lan, Sandy *(Note 1)*	583,536,821 10.11%	(L) 14,500,000	(L) 569,036,821
Legend Win Profits Limited *(Note 2)*	767,500,000 13.30%	(L) 767,500,000	–
Yue Wai Keung	550,448,230 9.54%	(L) 550,448,230	–
Ruan Yuan	530,000,000 9.18%	(L) 530,000,000	–

L: Long Position

Notes:

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

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

Continuing Connected Transactions

The following connected transactions have been entered into and are ongoing for which relevant announcements had been made by the Company in accordance with Chapter 14A of the Listing Rules:

(1) The Toland Transactions

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

During the year, the transactions made between Toland and KH Industries in respect of purchases amounted to approximately HK$3,901,000 (2010: HK$7,392,000), and were within the relevant annual cap approved by the shareholders of the Company.

(2) **The Administration transactions**

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

During the year, the transactions made between Toland and KH Industries in respect of services amounted to approximately HK$554,000 (2010: HK$554,000), and were within the relevant annual cap approved by the shareholders of the Company.

(3) **The Marketing Resource transactions**

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

During the period from 1 January 2011 to 6 July 2011, the transactions made between Toland and Marketing Resource in respect of purchases amounted to approximately HK$3,987,000 (2010: HK$10,806,000), and were within the relevant annual cap approved by the shareholders of the Company.

(4) **The Service transactions**

On 21 October 2009, Miracles For Fun USA Inc. ("Miracles USA"), a US company which is beneficially owned by Mr. Gregg Sanders who is a connected person of the Company, and Better Sourcing Worldwide Limited ("Better Sourcing"), an indirectly non-wholly owned subsidiary of the Company, entered into an agreement (the "Service Agreement"). Mr. Gregg Sanders, a director of Better Sourcing, is interested in 49% of the issued share capital of Better Sourcing and a connected person of the Company. Pursuant to the Service Agreement, Miracles USA agreed with Better Sourcing to perform marketing and promotion and research and development of toys and gift products for three years from 1 January 2009 to 31 December 2011. The annual cap for the services was approximately HK$1.9 million during each of three years ending 31 December 2011.

During the year, the transactions made between Miracles USA and Better Sourcing in respect of services amounted to approximately HK$1,663,000 (2010: HK$1,626,000), and were within the relevant annual cap approved by the shareholders of the Company.

(5) **The Better Sourcing transactions**

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

During the year, the transactions made between KH Industries and Better Sourcing in respect of purchases amounted to approximately HK$4,651,000 (2010: HK$7,524,000), and were within the relevant annual cap approved by the shareholders of the Company.

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

For details, please refer to the Company's announcements dated 2 November 2009 and 21 December 2009, and the Company's circular dated 23 November 2009.

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 23 to 24 of this annual report in accordance with paragraph 14A.38 of the Listing Rules. The auditor's letter was qualified with respect to the fact that Marketing Resource did not settle the trade amount to Toland within the credit terms of 45 days during the year ended 31 December 2011. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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 26 to 29 of this annual report.

Independent Confirmation

The Company has received, from each independent non-executive director, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent.

Event after the reporting period

Details of the event after the reporting period are set out in note 37 to the consolidated financial statements.

Auditor

PricewaterhouseCoopers will retire and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hui Kee Fung
Chairman

Hong Kong
28 March 2012

Corporate Governance Report

Introduction

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2011, the Company has substantially complied with the provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Directors' Securities Transactions

The Group has adopted 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 2011.

Board of Directors

The Board currently comprises four 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.

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

Mr. Lam and Mr. Zhang were appointed for a term of two years commencing from 22 October 2011, while Mr. Jin was appointed for a term of two years commencing from 26 May 2011.

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

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Eight Board meetings were held in 2011. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meeting and the Remuneration Committee meetings during 2011 is set out below:

	Attendance/Number of Meetings			
Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive Director				
Mr. Hui Kee Fung *(Chairman)*	8/8	N/A	1/1	3/3
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*	8/8	N/A	N/A	N/A
Mr. Guo Tianjue	8/8	N/A	N/A	N/A
Mr. Lam Kit Sun	8/8	N/A	N/A	N/A
Independent Non-Executive Director				
Mr. Lam Siu Lun, Simon	7/8	3/3	1/1	3/3
Mr. Zhang Xianmin	7/8	3/3	1/1	3/3
Mr. Jin Peihuang*	2/3	1/1	N/A	1/1
Mr. Mohammed Ibrahim Munshi#	2/5	1/2	1/1	1/2

* *Mr. Jin Peihuang was appointed as the independent non-executive director, the member of audit committee, remuneration committee and nomination committee of the Company on 26 May 2011.*

\# *Mr. Mohammed Ibrahim Munshi was retired as the independent non-executive director, the member of audit committee, remuneration committee and nomination committee of the Company on 26 May 2011.*

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

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 16 to 17 of this annual report.

Chairman and Chief Executive Officer

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Yu Won Kong, Dennis as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business.

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. Three meetings were held by the

Remuneration Committee in 2011. Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2011 include:

Mr. Lam Siu Lun, Simon – *Chairman*
Mr. Zhang Xianmin
Mr. Jin Peihuang
Mr. Hui Kee Fung

Directors' remunerations for the year are disclosed in note 11 to the consolidated financial statements.

Nomination Committee

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request. One meeting was held by the Nomination committee in 2011.

Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2011 include:

Mr. Zhang Xianmin – *Chairman*
Mr. Lam Siu Lun, Simon
Mr. Jin Peihuang
Mr. Hui Kee Fung

Audit Committee

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2011. All committee members are independent non-executive directors. Its members as at 31 December 2011 include:

Mr. Lam Siu Lun, Simon – *Chairman*
Mr. Zhang Xianmin
Mr. Jin Peihuang

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

Internal Controls

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

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

Auditor's Remuneration

During the year, the Group has incurred auditor's remuneration of HK$2,000,000 (2010: HK$2,800,000) all of which was paid/payable to the Company's existing auditor, PricewaterhouseCoopers. In addition, professional fee of approximately HK$154,000 (2010: HK$81,000) was payable by the Group for the taxation and other services rendered by PricewaterhouseCoopers.

Financial Reporting

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

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 30 to 31 of this annual report.

Going Concern

At 31 December 2011, the Group's current liabilities exceeded its current assets by approximately HK$34,767,000 and the Group recorded a loss of approximately HK$40,187,000 and a net operating cash outflow of approximately HK$47,886,000 during the year ended 31 December 2011. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various operational and financing measures as follows:

1) Subsequent to the balance sheet date on 1 February 2012, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK$0.06 per share to not less than six independent investors. The net proceeds (after deducting the placing expenses) of the top-up placing amounted to approximately HK$11.6 million;

2) Subsequent to the balance sheet date on 15 March 2012, the Group obtained a new short term borrowings of approximately HK$5,000,000;

3) Subsequent to the balance sheet date on 16 March 2012, the Company extended its borrowings of HK$5,500,000, which would be due in July to September 2012, to 15 March 2013. Among the extended borrowings, HK$2,000,000 is secured by the personal guarantee from a director of Company;

4) The Group is in negotiation with financial institutions to obtain new borrowings and to extend existing borrowings upon their due dates;

5) The Group is in negotiation with its creditors to extend payment due dates; and

6) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible note.

In addition, the construction plan of Huanghuashan Coal Mine ("HCM") is anticipated to be completed by the end of the second quarter of 2012. HCM will commence production again and is expected to bring operating cash inflows to the Group in the third quarter of 2012.

The directors of the Company are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2011. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Our ability to successfully implement the above-mentioned measures is subject to various factors, including but not limited to our future operating performance, market conditions and other factors, many of which are beyond our control and cannot be predicted with certainty. In the future, if sufficient funds are unavailable to meet our needs or refinancing cannot be obtained on commercially acceptable terms, if at all, then we may not be able to repay our borrowings, particularly our short-term borrowings, upon maturity or complete the development of our mines. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Should the Group be unable to operate as a going concern, adjustment would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The consolidated financial statements do not include any of these adjustments.

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Kiu Hung Energy Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, where due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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

We draw attention to note 2.1 to the consolidated financial statements, which states that the Group incurred a net loss of approximately HK$40,187,000 and had a net operating cash outflow of approximately HK$47,886,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$34,767,000. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to obtain sufficient new borrowings, extend its short-term borrowings upon their maturities, raise capital from existing and new investors, and derive adequate operating cash flows from its operations. These conditions, along with other matters as described in note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	6	**184,550**	186,095
Cost of sales		**(146,208)**	(146,642)
Gross profit		**38,342**	39,453
Other income	6	**2,511**	6,676
Selling and distribution costs		**(24,508)**	(23,584)
Administrative expenses		**(61,419)**	(61,463)
Other gains, net	9	**9,569**	52,291
Operating (loss)/profit		**(35,505)**	13,373
Finance costs	7	**(3,575)**	(7,104)
Share of profit of a jointly controlled entity	18	**48**	46
(Loss)/profit before income tax		**(39,032)**	6,315
Income tax expense	8	**(1,155)**	(1,344)
(Loss)/profit for the year	9	**(40,187)**	4,971
(Loss)/profit attributable to:			
– equity holders of the Company		**(40,539)**	6,313
– non-controlling interests		**352**	(1,342)
		(40,187)	4,971
		HK cents	HK cents
(Loss)/earnings per share attributable to the equity holders of the Company	10		
– basic		**(0.71)**	0.13
– diluted		**(0.90)**	(0.78)

The notes on pages 41 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
(Loss)/profit for the year	**(40,187)**	4,971
Other comprehensive income:		
Exchange difference arising from translation of foreign operations	**30,629**	17,834
Surplus on revaluation of properties	**4,894**	15,907
Deferred tax arising on revaluation of properties	**(662)**	(2,861)
Other comprehensive income for the year, net of tax	**34,861**	30,880
Total comprehensive (loss)/income for the year	**(5,326)**	35,851
Total comprehensive (loss)/income attributable to:		
– equity holders of the Company	**(5,678)**	37,193
– non-controlling interests	**352**	(1,342)
	(5,326)	35,851

The notes on pages 41 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**100,015**	85,584
Prepaid land lease payments	*13*	**4,752**	4,639
Investment properties	*14*	**9,358**	8,500
Exploration and evaluation assets	*15*	**788,075**	750,843
Mining right	*16*	**–**	–
Other intangible asset	*17*	**1,093**	1,105
Interest in a jointly controlled entity	*18*	**–**	1,423
Deferred tax assets	*28*	**–**	280
		903,293	852,374
Current assets			
Inventories	*20*	**26,119**	18,287
Trade receivables	*21*	**18,093**	13,977
Prepayments, deposits and other receivables		**14,945**	10,190
Due from a jointly controlled entity	*18*	**–**	6,509
Tax recoverable		**973**	116
Financial assets at fair value through profit or loss	*22*	**–**	–
Bank and cash balances	*23*	**13,002**	49,699
		73,132	98,778
Total assets		**976,425**	951,152
Current liabilities			
Trade payables	*24*	**20,689**	17,893
Accruals and other payables		**23,407**	20,015
Tax payable		**398**	1,275
Borrowings	*26*	**63,405**	38,300
		107,899	77,483
Net current (liabilities)/assets		**(34,767)**	21,295
Total assets less current liabilities		**868,526**	873,669

	Note	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Financial liabilities at fair value through profit or loss	27	**–**	245,285
Deferred tax liabilities	28	**187,059**	177,550
		187,059	422,835
Net assets		**681,467**	450,834
Equity			
Share capital	29	**115,386**	100,289
Reserves	30	**563,997**	350,254
Equity attributable to equity holders of the Company		**679,383**	450,543
Non-controlling interests		**2,084**	291
Total equity		**681,467**	450,834

The notes on pages 41 to 103 are an integral part of these consolidated financial statements.

The financial statement on pages 32 to 103 were approved by the board of directors of the Company on 28 March 2012 and were signed on its behalf.

Hui Kee Fung
Director

Yu Won Kong, Dennis
Director

Statement of Financial Position

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	12	271	679
Investments in subsidiaries	19	753,238	746,174
		753,509	746,853
Current assets			
Prepayments, deposits and other receivables		495	492
Bank and cash balances	23	1,157	20,372
		1,652	20,864
Total assets		755,161	767,717
Current liabilities			
Accruals and other payables		8,326	5,969
Due to a subsidiary	25	60,000	60,000
Borrowings	26	5,500	–
		73,826	65,969
Net current liabilities		(72,174)	(45,105)
Total assets less current liabilities		681,335	701,748
Non-current liabilities			
Financial liabilities at fair value through profit or loss	27	–	245,285
		–	245,285
Net assets		681,335	456,463
Equity			
Share capital	29	115,386	100,289
Reserves	30	565,949	356,174
Total equity		681,335	456,463

The notes on pages 41 to 103 are an integral part of these consolidated financial statements.

The financial statements on pages 32 to 103 were approved by the board of directors of the Company on 28 March 2012 and were signed on its behalf.

Hui Kee Fung
Director

Yu Won Kong, Dennis
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company											
	Share capital HK$'000 *(note 29)*	Share premium HK$'000 *(note (a))*	Statutory reserve HK$'000 *(note (b))*	Contributed surplus HK$'000 *(note (c))*	Foreign currency translation reserve HK$'000 *(note (d))*	Share-based payment reserve HK$'000 *(note (e))*	Property revaluation reserve HK$'000 *(note (f))*	Non-listed warrants reserve HK$'000 *(note (g))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(521,545)	196,487	1,633	198,120
Total comprehensive income/(loss) for the year	–	–	–	–	17,834	–	13,046	–	6,313	37,193	(1,342)	35,851
Transaction with equity holders												
Issue of shares upon exercise of share options *(note 29(a))*	79	599	–	–	–	(279)	–	–	–	399	–	399
Conversion of convertible notes to ordinary shares *(note 29(b))*	8,064	141,120	–	–	–	–	–	–	–	149,184	–	149,184
Issue of shares on placements *(note 29 (c))*	3,600	55,828	–	–	–	–	–	–	–	59,428	–	59,428
Release on forfeiture of non-listed warrants	–	–	–	–	–	–	–	(409)	409	–	–	–
Release on forfeiture of share options *(note 32)*	–	–	–	–	–	(218)	–	–	218	–	–	–
Recognition of share-based payment *(note 32)*	–	–	–	–	–	7,852	–	–	–	7,852	–	7,852
Transfer to reserve	–	–	1,286	–	–	–	–	–	(1,286)	–	–	–
Total transactions with equity holders	11,743	197,547	1,286	–	–	7,355	–	(409)	(659)	216,863	–	216,863
At 31 December 2010	100,289	758,054	3,191	303	71,107	12,468	21,022	–	(515,891)	450,543	291	450,834

	Attributable to equity holders of the Company											
	Share capital HK$'000 *(note 29)*	Share premium HK$'000 *(note (a))*	Statutory reserve HK$'000 *(note (b))*	Contributed surplus HK$'000 *(note (c))*	Foreign currency translation reserve HK$'000 *(note (d))*	Share-based payment reserve HK$'000 *(note (e))*	Property revaluation reserve HK$'000 *(note (f))*	Non-listed warrants reserve HK$'000 *(note (g))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	100,289	758,054	3,191	303	71,107	12,468	21,022	–	(515,891)	450,543	291	450,834
Total comprehensive (loss)/income for the year	–	–	–	–	30,629	–	4,232	–	(40,539)	(5,678)	352	(5,326)
Transaction with equity holders												
Issue of shares upon exercise of share options *(note 29(a))*	3	23	–	–	–	(11)	–	–	–	15	–	15
Conversion of convertible notes to ordinary shares *(note 29(b))*	15,094	218,870	–	–	–	–	–	–	–	233,964	–	233,964
Release on forfeiture of share options *(note 32)*	–	–	–	–	–	(694)	–	–	694	–	–	–
Recognition of share-based payment *(note 32)*	–	–	–	–	–	539	–	–	–	539	–	539
Acquisition of a subsidiary *(note 31)*	–	–	–	–	–	–	–	–	–	–	1,441	1,441
Total transactions with equity holders	15,097	218,893	–	–	–	(166)	–	–	694	234,518	1,441	235,959
At 31 December 2011	115,386	976,947	3,191	303	101,736	12,302	25,254	–	(555,736)	679,383	2,084	681,467

The notes on pages 41 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

Notes:

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

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

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

(d) The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the consolidated financial statements.

(e) Share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to certain directors, employees and consultants of the Group recognised in accordance with the accounting policy adopted for share-based payment reserve in note 3(t) to the consolidated financial statements.

(f) The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 3(d) to the consolidated financial statements.

(g) On 20 October 2009, the Company and the subscribers entered into the subscription agreements in respect of the placement of 200,000,000 warrants of the Company at an initial conversion price of HK$0.5 per share subject to adjustments. The subscription period is for 1 year from the date of issue of the warrants. The proceeds from issuance of warrants net of issuance cost of approximately HK$409,000 were credited to non-listed warrants reserve for the year ended 31 December 2009. These warrants have not been exercised upon expiry date of 19 October 2010, and approximately HK$409,000 were released from non-listed warrants reserve to accumulated losses for the year ended 31 December 2010.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
(Loss)/profit before income tax		**(39,032)**	6,315
Adjustments for:			
Write-back of provision for impairment of amount due from a jointly controlled entity		**(1,697)**	(160)
Amortisation of other intangible assets		**12**	12
Amortisation of prepaid land lease payments		**114**	145
Depreciation of property, plant and equipment		**7,330**	10,915
Provision for impairment of trade receivables		**81**	60
Provision for impairment of other receivables		**1,550**	–
Fair value gain on investment properties		**(453)**	(4,671)
Fair value loss on financial assets at fair value through profit or loss		**–**	286
Fair value gain on financial liabilities at fair value through profit or loss		**(11,321)**	(51,331)
Gain on acquisition of a subsidiary		**(3)**	–
Interest expenses	7	**3,575**	7,104
Interest income		**(29)**	(26)
Write-off and loss on disposals of property, plant and equipment		**988**	3,269
Provision for inventory obsolescence		**195**	449
Share of profit of a jointly controlled entity		**(48)**	(46)
Share-based payment expenses		**539**	7,852
Operating loss before working capital changes		**(38,199)**	(19,827)
Changes in Inventories		**(448)**	(3,539)
Changes in trade receivables		**(1,268)**	(11,227)
Changes in prepayments, deposits and other receivables		**(3,993)**	(6,270)
Changes in amount due from a jointly controlled entity		**8,206**	(5,756)
Changes in trade payables		**(7,693)**	4,580
Changes in trust receipt loans		**(1,554)**	8,847
Changes in accruals and other payables		**2,969**	(8,458)
Cash used in operations		**(41,980)**	(41,650)
Interest paid		**(3,575)**	(7,104)
Income taxes paid, net		**(2,331)**	(99)
Net cash used in operating activities		**(47,886)**	(48,853)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from investing activities			
Interest received		**29**	26
Purchases of property, plant and equipment		**(14,117)**	(16,292)
Proceeds from disposal of property, plant and equipment		**83**	3,426
Increase in exploration and evaluation assets		**–**	(14,234)
Acquisition of a subsidiary, net of cash acquired	*31*	**73**	–
Net cash used in investing activities		**(13,932)**	(27,074)
Cash flows from financing activities			
Bank and other loans raised		**83,241**	33,332
Repayment of bank and other loans		**(58,212)**	(47,832)
Proceeds from exercise of share options		**15**	399
Proceeds from share on placements		**–**	61,020
Costs for issuing shares on placement		**–**	(1,592)
Net cash generated from financing activities		**25,044**	45,327
Net decrease in cash and cash equivalents		**(36,774)**	(30,600)
Cash and cash equivalents at 1 January		**49,699**	82,713
Effect of foreign exchange rate changes		**77**	(2,414)
Cash and cash equivalents at 31 December		**13,002**	49,699
Analysis of the balances of cash and cash equivalents at 31 December			
Bank and cash balances	*23*	**13,002**	49,699

The notes on pages 41 to 103 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

The Group is principally engaged in the manufacturing and trading of toys and gifts and the exploration and mining of natural resources.

These financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. Theses financial statements have been approved for issue by the board of directors of the Company on 28 March 2012.

2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and in note 3. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance.

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the directors of the Company to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2.1 Going Concern

At 31 December 2011, the Group's current liabilities exceeded its current assets by approximately HK$34,767,000 and the Group recorded a loss of approximately HK$40,187,000 and a net operating cash outflow of approximately HK$47,886,000 during the year ended 31 December 2011. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various operational and financing measures as follows:

1) Subsequent to the balance sheet date on 1 February 2012, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK$0.06 per share to not less than six independent investors. The net proceeds (after deducting the placing expenses) of the top-up placing amounted to approximately HK$11.6 million;

2 BASIS OF PREPARATION *(Continued)*

2.1 Going Concern *(Continued)*

2) Subsequent to the balance sheet date on 15 March 2012, the Group obtained a new short term borrowings of approximately HK$5,000,000;

3) Subsequent to the balance sheet date on 16 March 2012, the Company extended its borrowings of HK$5,500,000, which would be due in July to September 2012, to 15 March 2013. Among the extended borrowings, HK$2,000,000 is secured by the personal guarantee from a director of the Company;

4) The Group is in negotiation with financial institutions to obtain new borrowings and to extend existing borrowings upon their due dates;

5) The Group is in negotiation with its creditors to extend payment due dates; and

6) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible note.

In addition, the construction plan of Huanghuashan Coal Mine ("HCM") is anticipated to be completed by the end of the second quarter of 2012. HCM will commence production again and is expected to bring operating cash inflows to the Group in the third quarter of 2012.

The directors of the Company are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2011. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Our ability to successfully implement the above-mentioned measures is subject to various factors, including but not limited to our future operating performance, market conditions and other factors, many of which are beyond our control and cannot be predicted with certainty. In the future, if sufficient funds are unavailable to meet our needs or refinancing cannot be obtained on commercially acceptable terms, if at all, then we may not be able to repay our borrowings, particularly our short-term borrowings, upon maturity or complete the development of our mines. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Should the Group be unable to operate as a going concern, adjustment would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for financial liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The consolidated financial statements do not include any of these adjustments.

2.2 Changes in accounting policy and disclosures

(a) New and amended standards and interpretations adopted by the Group

(i) The following amendments to standards are mandatory for accounting periods beginning on 1 January 2011. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group:

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 January 2011
HKAS 24 (Revised)	Related party transactions	1 January 2011
HKAS 27 (Amendment)	Consolidated and separate financial statements	1 July 2010
HKAS 34 (Amendment)	Interim financial reporting	1 January 2011
HKFRS 3 (Amendment)	Business combinations	1 July 2010

2 BASIS OF PREPARATION *(Continued)*

2.2 Changes in accounting policy and disclosures *(Continued)*

(a) New and amended standards and interpretations adopted by the Group *(Continued)*

(ii) The following amendments to standards and interpretations are mandatory for accounting periods beginning on 1 January 2011 but are not relevant to the Group's operations:

		Effective for accounting period beginning on or after
HKFRS 1 (Amendment)	First time adoption of Hong Kong Financial Reporting Standards	1 January 2011
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKFRS 7 (Amendment)	Financial instruments: Disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of rights issues	1 February 2010
HK (IFRIC) – Int 13 (Amendment)	Customer loyalty programmes	1 January 2011
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC) – Int 19 (Amendment)	Extinguishing financial liabilities with equity instruments	1 July 2010

(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2011 and have not been early adopted:

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKAS 27 (revised 2011)	Separate financial statements	1 January 2013
HKAS 28 (revised 2011)	Associates and joint ventures	1 January 2013
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013

The Group is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(1) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries *(Continued)*

(i) Consolidation *(Continued)*

(1) Business combinations (Continued)

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(2) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(3) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Jointly controlled entities

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

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

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

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

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

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

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

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

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

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Leasehold land and buildings comprise mainly factories and offices. Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Leasehold land and building are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

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

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

(e) Prepaid land lease payments

The lump-sum upfront lease payments made on entering into or acquiring leasehold land are accounted for as prepaid land lease payments and are amortised over the lease term on a straight line basis.

(f) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property. After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise. If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include cost of acquiring exploration right, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies.

Exploration and evaluation assets are classified as such and carried forward as long as:

(i) The exploration right is current;
(ii) The Group plans and has sufficient fund to continue the explorations; and
(iii) The technical feasibility and commercial viability of extracting a mineral resource are not yet demonstrable.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to mining right and are amortised.

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.

(h) Mining right

Mining right is stated at cost less accumulated amortisation and impairment losses and is amortised on the units of production method based on the total proven and probable reserves of the coal mine.

(i) Trademark

Trademark is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful lives of 99 years.

(j) Leases

(i) Operating leases

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

(ii) Finance leases

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Research expenditure

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

– an asset is created that can be identified;

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

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

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

(l) Inventories

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

(m) Recognition and derecognition of financial instruments

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss. Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(p) Cash and cash equivalents

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

(q) Financial liabilities and equity instruments

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

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

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

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

(iii) Trade and other payables

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

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

(i) Sales of goods

(a) Toys and gifts

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

(b) Coal

Revenue from sales of coal is recognised when the goods have been delivered to the customers and there is no unfulfilled obligation that would affect the customer's acceptance of the goods.

(ii) Rental income

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

(iii) Interest income

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

(s) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits *(Continued)*

(iii) Termination benefits

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

(t) Share-based payments

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

(u) Borrowing costs

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

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

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

(v) Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Current and deferred tax *(Continued)*

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(w) Related parties

A related party is a person or entity that is related to the Group.

(i) A person or a close member of that person's family is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Company or its parent.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management person

(x) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. Assets that have an indefinite useful life – for example, goodwill or intangible assets are ready to use are not subject to amortisation and are tested annually for impairment.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Provisions and contingent liabilities

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

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

(z) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in note 37.

(aa) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Fund availability

In order to fund the daily operation and the future expansion of the coal mining business of the Group, significant amounts of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. Management considers such funding for the future operation and expansion will be available as and when required. The basis of preparing these consolidated financial statements under the going concern assumption have been discussed in note 2.1.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Recoverability of exploration and evaluation assets

The directors are satisfied with the recoverability of exploration and evaluation assets with carrying value of approximately HK$788,075,000 (2010: HK$750,843,000), in aggregate, as at 31 December 2011 by reference to their respective fair values. In determining the fair values, the directors have appointed an independent firm of professional valuer and the fair values were developed through the application of income approach valuation methodology, where certain estimates were used. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. If any of the estimates being used has changed, the aggregate recoverable amount of the exploration and evaluation assets would be different and thus may have an impact on the consolidated financial statements.

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

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimated. In making its estimates, the Group considers the information from the valuations of investment properties and leasehold land and buildings performed by external professional valuers by using the open market value and depreciated replacement cost approaches. Had the Group used different valuation techniques, the fair value of the investment properties, leasehold land and buildings would be different and thus may have an impact on the consolidated financial statements.

(d) Share-based payment expenses

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

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer tastes and competitors' actions.

(f) Impairment loss for bad and doubtful debts

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

(g) Fair value of financial instruments

As disclosed in note 27, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(h) Property, plant and equipment and depreciation

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

The directors are satisfied with the recoverability of the mining assets of HCM, which are presented as "mining structure" and "construction in progress" included in "property, plant and equipment" in the consolidated statement of financial position, with an aggregate carrying value of approximately HK$28,877,000 (2010: HK$18,598,000). In determining the fair value, the Group tests whether the mining assets suffered any impairment, in accordance with the accounting policy stated in note 3(x). The recoverable amounts of the mining assets have been determined based on the value-in-use calculation.

If the forecasted coal price used in the value-in-use calculation for the recoverable amounts of the mining assets had been 10% lower than management's estimates, the Group would have recognised an impairment of property, plant and equipment by approximately HK$12,843,000 and would need to reduce the carrying value of property, plant and equipment by the same amount. If the forecasted cost of production used in the value-in-use calculation for the recoverable amounts of the mining assets had been 10% higher than management's estimates, the Group would have recognised an impairment of property, plant and equipment by approximately HK$5,010,000 and would need to reduce the carrying value of property, plant and equipment by the same amount. If the discount rate used in the value-in-use calculation for the recoverable amounts of the mining assets had been 2% higher than management's estimate of 16%, the Group would have recognised an impairment of property, plant and equipment by approximately HK$2,474,000 and would need to reduce the carrying value of property, plant and equipment by the same amount.

(i) Income and deferred taxes

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

Deferred tax assets relating to certain temporary difference and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

Included in the bank and cash balances of the Group is an aggregate amount of approximately HK$5,908,000 denominated in RMB at 31 December 2011 (2010: HK$15,936,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

At 31 December 2011, if Renminbi had strengthened/weakened by 5% (2010: 5%) against Hong Kong dollars with all other variables held constant, pre-tax result for the year would have been approximately HK$295,000 higher/lower (2010: HK$797,000 higher/lower) mainly as a result of foreign exchange gains/losses on translation of cash and cash equivalents, trade receivables, trade payables and borrowings denominated in non-functional currency of the relevant group companies.

(b) Price risk

The Group was exposed to equity price change of the Company's share as the Group's financial liabilities at fair value through profit or loss (note 27) were valued based on the market price of the Company's share at the end of each reporting period.

At 31 December 2011, the Group did not have any financial liabilities at fair value through profit or loss (note 27).

At 31 December 2010, if equity price of the Company's share had increased/decreased by 5% with all other variable held constant, consolidated profit after tax for the year would have been approximately HK$12,302,000 lower/higher as a result of fair value losses/gains on financial liabilities at fair value through profit or loss.

(c) Credit risk

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

At 31 December 2011, the Group has certain concentration of credit risk as 36% (2010: 58%) and 74% (2010: 69%) of the total trade receivables were due from the Group's largest customer and the five largest customers at 31 December 2011, respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

The Group has policies that limit the amount of credit exposure to any individual financial institution. The Group's bank deposits are all deposited in renowned and established banks or financial institutions in Hong Kong and the PRC. Management considers that the credit risk associated with deposits with banks and financial institutes is low.

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

(d) Liquidity risk

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

The maturity analysis of the Group's and the Company's financial liabilities are as follows:

	Total contractual undiscounted cash flow HK$'000	Less than 1 year or on demand HK$'000	Between 1 to 2 years HK$'000	Between 2 to 5 years HK$'000	Over 5 years HK$'000
Group					
At 31 December 2011					
Trade payables	**20,689**	**20,689**	**–**	**–**	**–**
Accruals and other payables	**23,407**	**23.407**	**–**	**–**	**–**
Borrowings and related interest payments	**63,405**	**62,987**	**644**	**1,933**	**1,925**
At 31 December 2010					
Trade payables	17,893	17,893	–	–	–
Accruals and other payables	20,015	20,015	–	–	–
Borrowings and related interest payments	38,300	35,074	644	1,933	2,570
Financial liabilities at fair value through profit or loss	245,285	–	–	–	245,285
Company					
At 31 December 2011					
Accruals and other payables	**8,326**	**8,326**	**–**	**–**	**–**
Borrowings and related interest payments	**5,500**	**6,481**	**–**	**–**	**–**
Due to subsidiaries	**60,000**	**60,000**	**–**	**–**	**–**
At 31 December 2010					
Accruals and other payables	5,969	5,969	–	–	–
Due to subsidiaries	60,000	60,000	–	–	–
Financial liabilities at fair value through profit or loss	245,285	–	–	–	245,285

The basis of preparing these consolidated financial statements under the going concern assumption have been discussed in note 2.1.

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Interest rate risk

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

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

At December 2011, if interest rate had increased/decreased by 200 basis points, pre-tax result for the year would have been approximately HK$393,000 (2010: HK$279,000) lower/higher mainly as a result of an increase/a decrease in interest rate applied to the Group's interest-bearing loans.

(f) Fair values estimation

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

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

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

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

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

The Group had no financial instruments at 31 December 2011.

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2010:

	Fair value measurement using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Liabilities				
Financial liabilities at fair value through profit or loss	–	245,285	–	245,285

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to continue with the expansion plan for the coal mining operation. In order to fund the daily operation and the expansion of the coal mining business of the Group, significant amounts of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. The directors consider such funding for the future operation and expansion will be available as and when required.

The Group managed the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debts. No changes had been made in the objectives, policies and processes during the years ended 31 December 2011 and 2010.

The Group monitors capital using a gearing ratio, which is the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity. The Company's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2011 was 13.93% (2010: 6.16%).

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

6 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2011 **HK$'000**	2010 HK$'000
Turnover		
Sales of goods	**184,550**	186,095
Other income		
Fair value gain on investment properties *(note 14)*	**453**	4,671
Gain on disposal of moulds	**178**	585
Interest income	**29**	26
Rental income *(note 14)*	**723**	205
Others	**1,128**	1,189
	2,511	6,676

6 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Segment information

The Group has two reportable segments as follows:

Exploration and mining	–	Exploration and mining of natural resources
Toys and gifts items	–	Manufacturing and trading of toys and gifts items

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

Segment results do not include fair value gain on financial liabilities at fair value through profit or loss (note 27), corporate finance costs and other corporate income and expenses. Segment assets do not include property, plant and equipment, bank and cash balances and prepayments, deposits and other receivables at corporate level. Segment liabilities do not include financial liabilities at fair value through profit or loss, borrowings, and accruals and other payables at corporate level.

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

	Exploration and mining		Toys and gift items		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Year ended 31 December						
Revenue from external customers	**–**	11,126	**184,550**	174,969	**184,550**	186,095
Segment results	**(11,663)**	(20,185)	**(18,737)**	(5,100)	**(30,400)**	(25,285)
Depreciation and amortisation	**(1,036)**	(2,343)	**(6,014)**	(8,458)	**(7,050)**	(10,801)
Interest income	**20**	17	**8**	2	**28**	19
Interest expenses	**(652)**	(5,509)	**(2,668)**	(1,472)	**(3,320)**	(6,981)
Share of profit of a jointly controlled entity	**–**	–	**48**	46	**48**	46
Income tax expense	**–**	–	**(1,155)**	(1,344)	**(1,155)**	(1,344)
Write-back of impairment on amount due from a jointly controlled entity	**–**	–	**1,697**	160	**1,697**	160
At 31 December						
Segment assets	**831,165**	795,704	**143,157**	133,905	**974,322**	929,609
Segment liabilities	**(188,523)**	(178,996)	**(92,562)**	(70,068)	**(281,085)**	(249,064)
Interest in a jointly controlled entity	**–**	–	**–**	1,423	**–**	1,423
Additions to segment non-current assets	**9,826**	18,598	**4,292**	10,978	**14,118**	29,576

6 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

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

	2011 HK$'000	2010 HK$'000
Reconciliation of segment results:		
Total loss of reportable segments	(30,400)	(25,285)
Unallocated amount:		
Fair value gain on financial liabilities at fair value through profit or loss	11,321	51,331
Corporate finance costs	(254)	(123)
Other corporate income and expenses	(20,854)	(20,952)
(Loss)/profit for the year	(40,187)	4,971
Reconciliation of segment assets:		
Total assets of reportable segments	974,322	929,609
Unallocated corporate assets		
Property, plant and equipment	271	679
Bank and cash balances	1,157	20,372
Prepayments, deposits and other receivables	675	492
	2,103	21,543
Total assets	976,425	951,152
Reconciliation of segment liabilities:		
Total liabilities of reportable segments	281,085	249,064
Unallocated corporate liabilities		
Financial liabilities at fair value through profit or loss	–	245,285
Borrowings	5,500	–
Accruals and other payables	8,373	5,969
	13,873	251,254
Total liabilities	294,958	500,318

6 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information:

	Revenue	
	2011	2010
	HK$'000	HK$'000
The PRC (including Hong Kong)	**2,557**	13,326
North America[1]	**147,307**	146,468
European Union[2]	**25,309**	19,753
Others[3]	**9,377**	6,548
	184,550	186,095

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

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

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

(d) Analysis of revenue by category:

	2011	2010
	HK$'000	HK$'000
Sales of toys and gifts items	**184,550**	174,969
Sales of coal	**–**	11,126
	184,550	186,095

7 FINANCE COSTS

	2011 **HK$'000**	2010 HK$'000
Interest expenses on:		
Bank loans wholly repayable within 5 years	**2,378**	1,472
Other loans wholly repayable within 5 years	**1,103**	5,509
Trust receipt loans	**94**	123
	3,575	7,104

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2011 **HK$'000**	2010 HK$'000
Current tax:		
Hong Kong Profits Tax		
Provision for the year	**187**	269
Over-provision for prior years	**–**	(24)
	187	245
The PRC		
Provision for the year	**1,097**	713
The USA		
Over-provision for prior years	**(559)**	–
Total current tax	**725**	958
Deferred tax *(note 28)*	**430**	386
Income tax expense	**1,155**	1,344

8 INCOME TAX EXPENSE *(Continued)*

The reconciliation between the income tax expense and the product of (loss)/profit before tax multiplied by Hong Kong profits tax rate is as follows:

	2011 HK$'000	2010 HK$'000
(Loss)/profit before tax	**(39,032)**	6,315
Tax at the applicable tax of 16.5% (2010: 16.5%)	**(6,440)**	1,042
Tax effect of income that is not taxable	**(1,865)**	(8,514)
Tax effect of expenses that are not deductible	**9,306**	8,466
Tax effect of timing difference not recognised	**–**	(872)
Tax effect of utilisation of tax losses not previously recognised	**(85)**	(991)
Tax effect of unused tax losses not recognised	**1,525**	2,898
Over-provision for prior years	**(559)**	(24)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(727)**	(661)
Income tax expense	**1,155**	1,344

Tax charge relating to each component of other comprehensive income is as follows:

	2011			2010		
	Amount before tax HK$'000	**Tax HK$'000**	**Amount after tax HK$'000**	Amount before tax HK$'000	Tax HK$'000	Amount after tax HK$'000
Exchange differences on translating foreign operations	**30,629**	**–**	**30,629**	17,834	–	17,834
Surplus on revaluation of properties	**4,894**	**(662)**	**4,232**	15,907	(2,861)	13,046
Other comprehensive income	**35,523**	**(662)**	**34,861**	33,741	(2,861)	30,880
Current tax		**–**			–	
Deferred tax		**(662)**			(2,861)	
		(662)			(2,861)	

9 (LOSS)/PROFIT FOR THE YEAR

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

	2011 **HK$'000**	2010 HK$'000
Amortisation of other intangible asset *(note 17)*	**12**	12
Auditor's remuneration	**2,000**	2,800
Write-back of provision for impairment of amount due from a jointly controlled entity[1] *(note 18)*	**(1,697)**	(160)
Provision for impairment of trade receivables *(note 21)*	**81**	60
Provision for impairment of other receivables[1]	**1,550**	–
Cost of inventories sold *(note (a))*	**146,208**	146,642
Depreciation of property, plant and equipment *(note 12)*	**7,330**	10,915
Amortisation of prepaid land lease payments *(note 13)*	**114**	145
Fair value loss on financial assets at fair value through profit or loss[1] *(note 22)*	**–**	286
Fair value gain on financial liabilities at fair value through profit or loss[1] *(note 27)*	**(11,321)**	(51,331)
Write-off and loss on disposals of property, plant and equipment[1]	**988**	3,269
Minimum lease payments under operating leases in respect of leasehold land and buildings	**5,078**	3,635
Net foreign exchange loss/(gain)[1]	**913**	(2,752)
Research and development expenditure *(note (b))*	**820**	926
Provision for inventories obsolescence	**195**	449
Staff costs (excluding directors' remuneration *(note 11)*) *(note (c))*		
Salaries, bonus and allowance	**40,247**	25,991
Retirement benefits scheme contributions	**2,173**	2,257
Share-based payment expenses	**127**	698
	42,547	28,946

[1] *Included in other gains, net*

Note:

(a) *Cost of inventories sold included approximately HK$16,073,000 (2010: HK$10,573,000), HK$3,169,000 (2010: HK$9,032,000), HK$820,000 (2010: HK$926,000) and HK$195,000 (2010: HK$449,000) relating to staff costs, depreciation of property, plant and equipment, research and development expenditure and provision for inventory obsolescence respectively, which are included in the respective amounts disclosed separately above for each of these types of expenses for the year.*

(b) *Research and development expenditure included approximately HK$715,000 (2010: HK$667,000) relating to staff costs which are also included in the total amount of staff costs disclosed separately above for the year.*

(c) *Staff costs included approximately HK$4,027,000 (2010: nil) relating to salaries, which are capitalised in "property, plant and equipment" in the consolidated statement of financial position.*

10 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The calculations of basic (loss)/earnings per share and diluted loss per share are based on the following:

	2011 **HK$'000**	2010 HK$'000
(Loss)/profit attributable to the equity holders of the Company		
(Loss)/profit for the purpose of calculating basic (loss)/earnings per share	**(40,539)**	6,313
Less: fair value gain on financial liabilities at fair value through profit or loss *(note 27)*	**(11,321)**	(51,331)
Adjusted loss for the purpose of calculating diluted loss per share	**(51,860)**	(45,018)

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**5,717,546,742**	4,789,103,515
Effect of dilutive potential ordinary shares arising from outstanding share options and financial liabilities at fair value through profit or loss	**51,698,448**	975,955,974
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**5,769,245,190**	5,765,059,489

For the year ended 31 December 2011, the dilutive effect was resulted from the financial liabilities at fair value through profit or loss as the conversion price of the financial liabilities at fair value through profit or loss was below the market price of the Company's ordinary shares at the date of conversion; As the Group has incurred a loss for the year ended 31 December 2011, the conversion of all potential ordinary shares arising from the outstanding share options (granted in 2006) would have an anti-dilutive effect on the loss per share. Accordingly, the weighted average number of ordinary shares was not adjusted to compute the diluted loss per share for the effect of the share options.

For the year ended 31 December 2010, the dilutive effect was resulted from the outstanding share options (granted in 2006) and the financial liabilities at fair value through profit or loss as the exercise price of these share options and the conversion price of the financial liabilities at fair value through profit or loss were below the average market price of the Company's ordinary shares.

11 REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

For the year ended 31 December 2011

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Hui Kee Fung#	–	2,105	–	210	2,315
Mr. Yu Won Kong, Dennis*	–	3,359	–	12	3,371
Mr. Guo Tianjue	–	3,359	–	–	3,359
Mr. Lam Kit Sun	–	986	–	12	998
Independent non-executive directors					
Mr. Lam Siu Lun, Simon	–	120	137	–	257
Mr. Zhang Xianmin	–	120	137	–	257
Mr. Mohammed Ibrahim Munshi (retired on 26 May 2011)	–	48	137	–	185
Mr. Jin Peihuang (appointed on 26 May 2011)	–	72	–	–	72
	–	10,169	411	234	10,814

11 REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' remuneration *(Continued)*

For the year ended 31 December 2010

Name of director	Fees	Salaries, allowances and benefits in kind	Share-based payment	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. Hui Kee Fung#	–	1,885	676	189	2,750
Mr. Yu Won Kong, Dennis*	–	2,600	3,722	12	6,334
Mr. Guo Tianjue	–	2,600	676	–	3,276
Mr. Lam Kit Sun	–	650	676	12	1,338
Independent non-executive directors					
Mr. Lam Siu Lun, Simon	–	120	468	–	588
Mr. Zhang Xianmin	–	120	468	–	588
Mr. Mohammed Ibrahim Munshi (retired on 26 May 2011)	–	120	468	–	588
	–	8,095	7,154	213	15,462

\# *Chairman*

* *Chief executive officer*

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2010: HK$Nil).

11 REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Five highest paid individuals' remuneration

The five highest paid individuals during the year included four (2010: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2010: two) highest paid individual are as follows:

	2011 **HK$'000**	2010 HK$'000
Salaries, allowances and benefits in kind	**1,690**	2,405
Share-based payment	**–**	579
Retirement benefits scheme contributions	**182**	162
	1,872	3,146

The emoluments fell within the following band:

	Number of individuals	
	2011	2010
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	1
	1	2

During the year, no remuneration was paid by the Group to any of the directors or the highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2010: HK$Nil).

12 PROPERTY, PLANT AND EQUIPMENT

	Group								
	Leasehold land and buildings	Mining structure	Leasehold improve-ments	Plant and machinery	Moulds	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation									
At 1 January 2010	30,515	19,861	2,094	15,310	36,013	4,850	5,486	–	114,129
Additions	–	–	950	5,976	5,287	967	849	2,263	16,292
Adjustment on revaluation to equity	14,788	–	–	–	–	–	–	–	14,788
Transfer to inventory	–	–	–	(601)	–	–	–	–	(601)
Disposal/written off	–	(2,669)	–	(4,101)	(3,752)	(272)	(290)	–	(11,084)
Exchange difference	630	640	–	499	3,644	565	(860)	59	5,177
At 31 December 2010	45,933	17,832	3,044	17,083	41,192	6,110	5,185	2,322	138,701
Acquisition of a subsidiary *(note 31)*	–	–	254	–	222	480	–	–	956
Additions	1,912	–	123	853	1,813	268	–	9,148	14,117
Adjustment on revaluation to equity	3,619	–	–	–	–	–	–	–	3,619
Disposal/written off	(317)	–	–	(1,545)	(5,120)	(612)	–	–	(7,594)
Exchange difference	(1,600)	885	–	802	1,344	2,516	223	323	4,493
At 31 December 2011	49,547	18,717	3,421	17,193	39,451	8,762	5,408	11,793	154,292
Accumulated depreciation and impairment									
At 1 January 2010	–	–	2,033	9,603	24,867	4,175	3,855	–	44,533
Charge for the year *(note 9)*	1,119	1,517	301	1,942	4,954	635	447	–	10,915
Adjustment on revaluation to equity	(1,119)	–	–	–	–	–	–	–	(1,119)
Disposal/written off	–	–	–	(1,935)	(1,980)	(375)	(99)	–	(4,389)
Exchange difference	–	39	(2)	1,047	3,006	169	(1,082)	–	3,177
At 31 December 2010	–	1,556	2,332	10,657	30,847	4,604	3,121	–	53,117
Charge for the year *(note 9)*	1,304	–	474	2,046	2,552	511	443	–	7,330
Adjustment on revaluation to equity	(1,275)	–	–	–	–	–	–	–	(1,275)
Disposal/written off	(29)	–	–	(1,405)	(4,589)	(500)	–	–	(6,523)
Exchange difference	–	77	1	(620)	1,022	1,017	131	–	1,628
At 31 December 2011	–	1,633	2,807	10,678	29,832	5,632	3,695	–	54,277
Carrying amount									
At 31 December 2011	49,547	17,084	614	6,515	9,619	3,130	1,713	11,793	100,015
At 31 December 2010	45,933	16,276	712	6,426	10,345	1,506	2,064	2,322	85,584

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The analysis of the cost/valuation of the above assets is as follows:

	Group								
	Leasehold land and buildings HK$'000	Mining structure HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011									
At cost	–	18,717	3,421	17,193	39,451	8,762	5,408	11,793	104,745
At valuation	49,547	–	–	–	–	–	–	–	49,547
	49,547	18,717	3,421	17,193	39,451	8,762	5,408	11,793	154,292
31 December 2010									
At cost	–	17,832	3,044	17,083	41,192	6,110	5,185	2,322	92,768
At valuation	45,933	–	–	–	–	–	–	–	45,933
	45,933	17,832	3,044	17,083	41,192	6,110	5,185	2,322	138,701

During the year ended 31 December 2011, the Company did not acquire or dispose of any property, plant and equipment, and depreciation of approximately HK$407,000 was charged to income statement. At 31 December 2011, the carrying amount of leasehold improvements of the Company was approximately HK$271,000.

During the year ended 31 December 2010, the Company acquired leasehold improvements of HK$950,000, and depreciation of approximately HK$271,000 was charged to income statement. At 31 December 2010, the carrying amount of leasehold improvements of the Company was approximately HK$679,000.

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
Held under medium term leases in Hong Kong *(note (a))*	**29,195**	26,510
Held under medium term leases in the PRC *(note (b))*	**20,352**	19,423
	49,547	45,933

Notes:

(a) *The Group's medium term leasehold land and buildings in Hong Kong were revalued as at 31 December 2011 and 2010 by Grant Sherman Appraisal Limited ("Grant Sherman") and Ascent Partners Transaction Service Limited ("Ascent Partners"), independent firms of professional valuers, respectively, on market value basis.*

(b) *The Group's medium term leasehold land and buildings in the PRC were revalued as at 31 December 2011 and 2010 by Grant Sherman and Ascent Partner respectively, on depreciated replacement cost basis.*

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 31 December 2011 would have been HK$20,108,000 (2010: HK$19,303,000).

At 31 December 2011, the Group's property, plant and equipment with an aggregate carrying amount of HK$70,090,000 (2010: HK$42,900,000) were pledged to secure banking facilities granted to the Group (note 26).

Depreciation expenses of approximately HK$3,169,000 (2010: HK$9,032,000) and HK$4,161,000 (2010: HK$1,883,000) have been charged in "cost of sales" and "administrative expenses" in the consolidated income statement, respectively.

13 PREPAID LAND LEASE PAYMENTS

	Group HK$'000
Cost	
At 1 January 2010	5,334
Exchange difference	182
At 31 December 2010	5,516
Exchange difference	274
At 31 December 2011	5,790
Accumulated amortisation	
At 1 January 2010	593
Charge for the year *(note 9)*	145
Exchange difference	24
At 31 December 2010	762
Charge for the year *(note 9)*	114
Exchange difference	40
At 31 December 2011	916
Carrying amount	
At 31 December 2011	4,874
At 31 December 2010	4,754

Amortisation of prepaid land lease payments has been included in "administrative expenses" in the consolidated income statement.

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

	Group	
	2011 **HK$'000**	2010 HK$'000
Held under medium term leases in the PRC	**4,874**	4,754

13 PREPAID LAND LEASE PAYMENTS *(Continued)*

At 31 December 2011, the Group's prepaid land lease payments with an aggregate carrying amount of approximately HK$4,874,000 (2010: HK$4,754,000) were pledged to secure banking facilities granted to the Group (note 26).

At 31 December 2011, prepaid land lease payments of approximately HK$4,752,000 (2010: HK$4,639,000) were classified as non-current assets while approximately HK$122,000 (2010: HK$115,000) were classified as current assets and grouped under "prepayments, deposits and other receivables" in the consolidated statement of financial position.

14 INVESTMENT PROPERTIES

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**8,500**	3,600
Exchange difference	**405**	229
Fair value gain *(note 6)*	**453**	4,671
At 31 December	**9,358**	8,500

The Group's investment properties are analysed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Held under medium term leases in Hong Kong	**600**	500
Held under medium term leases in the PRC	**8,758**	8,000
	9,358	8,500

The Group's investment properties were revalued as at 31 December 2011 and 2010 by Grant Sherman and Ascent Partners respectively, on market value basis.

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

Rental income derived from investment properties under operating leases amounted to approximately HK$723,000 (2010: HK$205,000) for the year ended 31 December 2011 (note 6). There was no contingent rental recognised during the years ended 31 December 2011 and 2010.

At 31 December 2011, the Group's investment properties with an aggregate carrying amount of approximately HK$8,758,000 (2010: HK$8,000,000) were pledged to secure banking facilities granted to the Group (note 26).

15 EXPLORATION AND EVALUATION ASSETS

	Group HK$'000
Cost	
At 1 January 2010	1,250,250
Additions	14,234
Exchange difference	43,131
At 31 December 2010	1,307,615
Exchange difference	64,841
At 31 December 2011	1,372,456
Accumulated impairment loss	
At 1 January 2010	538,361
Exchange difference	18,411
At 31 December 2010	556,772
Exchange difference	27,609
At 31 December 2011	584,381
Carrying amount	
At 31 December 2011	788,075
At 31 December 2010	750,843

The exploration and evaluation assets are attributable to Guerbanhada Coal Mine ("GCM") and Bayanhushuo Coal Field ("BCF"). At 31 December 2011, the carrying amount is attributable to GCM of approximately HK$249,801,000 (2010: HK$238,000,000) and BCF of approximately HK$538,274,000 (2010: HK$512,843,000).

The master planning (總體規劃) of GCM has been agreed by the Development and Reform Commission of Inner Mongolia Autonomous Region (內蒙古自治區發展和改革委員會) and has been submitted to the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of the PRC (中華人民共和國國家能源局) for their approvals during 2010. The licence period of the exploration right of GCM is from 23 September 2011 to 22 September 2013. In order to expedite the application process of the mining licence of GCM, the Group has been closely following up the application in its best endeavour. Based on the assessment made by the directors, the Company's management is very confident and determined to obtain the approvals for the master planning of GCM from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC successfully.

The Group is compiling the master planning of BCF and expects to submit the master planning to the Development and Reform Commission of Inner Mongolia Autonomous Region in late 2012 or early 2013. The exploration right certificate in BCF had an initial exploration period from 5 July 2008 to 4 July 2010 and was subsequently renewed to 4 July 2012, and further renewal is subject to government's approval.

The carrying values of the exploration and evaluation assets were tested for impairment as at 31 December 2011. Note 4(b) contains information about the estimates, assumptions and judgments relating to the impairment tests. The results of the tests undertaken as at 31 December 2011 indicated no impairment charge was necessary.

16 MINING RIGHT

	Group HK$'000
Cost	
At 1 January 2010	35,493
Exchange difference	1,214
At 31 December 2010	36,707
Exchange difference	1,825
At 31 December 2011	38,532
Accumulated amortisation and impairment loss	
At 1 January 2010	35,493
Exchange difference	1,214
At 31 December 2010	36,707
Exchange difference	1,825
At 31 December 2011	38,532
Carrying amount	
At 31 December 2011	–
At 31 December 2010	–

The mining right represents the mining right of HCM that is held by Tongliao City Heng Yuan Mining Company Limited. HCM is located in the Inner Mongolia Autonomous Region of the PRC. The mining right certificate has been renewed with a mining period from 17 June 2011 to 17 June 2014 and subject to further renewal. The carrying amount of mining right had been fully provided during the year ended 31 December 2008.

During the year ended 31 December 2011, the government of Tongliao City of Inner Mongolia Autonomous Region announced a proposal to merge the coal mines located in Tongliao City, in which HCM is located. However, the details of the proposed merger have not yet been released by the government of Tongliao City and there is no material impact on the operation of HCM up to the date of these consolidated financial statements were authorised to issue.

At 31 December 2011, the Group's mining right was pledged to secure banking facilities granted to the Group (note 26).

17 OTHER INTANGIBLE ASSET

	Group Trademark HK$'000 *(note a)*
Cost	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	1,155
Accumulated amortisation	
At 1 January 2010	38
Amortisation for the year	12
At 31 December 2010	50
Amortisation for the year	12
At 31 December 2011	62
Carrying amount	
At 31 December 2011	1,093
At 31 December 2010	1,105

Notes:

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

(b) *The amortisation of approximately HK$12,000 (2010: HK$12,000) (note 9) has been included in "selling and distribution costs" in the consolidated income statement.*

18 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets:		
At 1 January	**1,423**	1,377
Share of profit *(note a)*	**48**	46
Transfer to interests in a subsidiary *(note 31)*	**(1,471)**	–
At 31 December *(note a)*	**–**	1,423

	Group	
	2011	2010
	HK$'000	HK$'000
Amount due from a jointly controlled entity *(note c)*	**–**	8,206
Less: provision for impairment	**–**	(1,697)
Amount due from a jointly controlled entity, net	**–**	6,509

The movements in provision for impairment of amount due from a jointly controlled entity are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**1,697**	1,857
Write-back of provision *(note 9)*	**(1,697)**	(160)
At 31 December	**–**	1,697

18 INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Notes:

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

	Group 2011 HK$'000	Group 2010 HK$'000
Share of the jointly controlled entity's assets and liabilities:		
Assets		
Non-current assets	–	548
Current assets	–	7,399
	–	7,947
Liabilities		
Current liabilities	–	(6,524)
Net assets	–	1,423
Share of the jointly controlled entity's results:		
Income	7,785	14,320
Expenses	(7,737)	(14,274)
Profit after income tax	48	46

(b) *Details of the Group's jointly controlled entity at 31 December 2010 were as follows:*

Company	Place of incorporation and operations	Issued and paid up capital	Percentage of ownership interest attributable to the Group	Principal activities
Marketing Resource Group, Inc. ("MRG")	The USA	US$350,000	50%	Trading of flags and garden products

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

(d) *On 6 July 2011, Bestever Developments Limited, an indirect wholly owned subsidiary of the Group, acquired an additional 1% share capital in MRG, at a cash consideration of US$3,500 (note 31). As a result, the interest in a jointly controlled entity of approximately HK$1,471,000 was transferred to investment in a subsidiary of Bestever Developments Limited on 6 July 2011, and MRG has become an indirect non-wholly owned subsidiary of the Group with 51% of equity interest attributable to the Group since 6 July 2011.*

19 INVESTMENTS IN SUBSIDIARIES

	Company 2011 HK$'000	Company 2010 HK$'000
Unlisted investments at cost	**1,001,768**	1,001,828
Due from subsidiaries	**275,950**	265,310
Less: Impairment losses	**(524,480)**	(520,964)
	753,238	746,174

The amounts due from subsidiaries under non-current assets are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries at 31 December 2011 are as follows:

Name	Place of incorporation/ registration and kind of legal entity	Particulars of issued/ registered capital	Percentage of equity interests held by the Company (Directly)	Percentage of equity interests held by the Company (Indirectly)	Principal activities and place of operation
Legend Wealth Holdings Limited	British Virgin Islands ("BVI"), Limited liability company	50,500 ordinary shares of US$1 each	100%	–	Investment holding, Hong Kong
King Wish Limited	BVI, Limited liability company	1 ordinary share of US$1	100%	–	Investment holding, Hong Kong
Super Dragon Management Limited	BVI, Limited liability company	1 ordinary share of US$1	100%	–	Investment holding, Hong Kong
Bestever Developments Limited	BVI, Limited liability company	100 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Better Sourcing Worldwide Limited	Hong Kong, Limited liability company	100 ordinary shares of HK$1 each	–	51%	Trading of gifts and toys, Hong Kong
Kiu Hung Industries Limited	Hong Kong, Limited liability company	1,000 ordinary shares of HK$1 each	–	100%	Trading of gifts and toys, Hong Kong
Kiu Hung Toys Company Limited	Hong Kong, Limited liability company	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%	Investment holding, Hong Kong
Newgary Development Limited	Hong Kong, Limited liability company	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%	Property holding, Hong Kong
Toland International Limited	Hong Kong, Limited liability company	4,200,000 ordinary shares of HK$1 each	–	70%	Trading of flags and gardenproducts,HongKong

19 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and kind of legal entity	Particulars of issued/ registered capital	Percentage of equity interests held by the Company (Directly)	(Indirectly)	Principal activities and place of operation
福建奇嘉禮品玩具有限公司 (Fujian Kcare Giftoys Co., Ltd.[1])	The PRC, Limited liability company	RMB10,000,000	–	100%	Manufacture and trading of gifts and toys, The PRC
福建嘉雄玩具有限公司 (Fujian Ka Hung Toys Co., Ltd.[1])	The PRC, Limited liability company	RMB10,000,000	–	100%	Manufacture and trading of gifts and toys, The PRC
內蒙古銘潤峰能源有限公司 (Inner Mongolia Mingrunfeng Energy Co., Ltd.[1])	The PRC, Limited liability company	RMB53,000,000	–	100%	Exploration and mining, The PRC
通遼市恒源礦業有限責任公司 (Tongliao City Heng Yuan Mining Company Limited[1])	The PRC, Limited liability company	RMB65,000,000	–	100%	Exploration and mining, The PRC
Bright Asset Investments Limited	BVI, Limited liability company	10,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
First Choice Resources Limited	BVI, Limited liability company	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Growth Gain Investments Limited	BVI, Limited liability company	100 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Jumplex Investments Limited	BVI, Limited liability company	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Lucky Dragon Resources Limited	BVI, Limited liability company	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Top Point Investments Limited	BVI, Limited liability company	100 ordinary shares of US$1 each	–	100%	Investment in securities, Hong Kong
Wise House Limited	BVI, Limited liability company	36,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Marketing Resource Group Inc.	The USA, Limited liability company	350,000 ordinary shares of US$1 each	–	51%	Trading of flags and garden products, The USA

[1] *For identification purpose*

20 INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**15,755**	13,241
Work in progress	**2,668**	2,824
Finished goods	**11,949**	6,280
	30,372	22,345
Less: Provision	**(4,253)**	(4,058)
	26,119	18,287

21 TRADE RECEIVABLES

	Group	
	2011	2010
	HK$'000	HK$'000
Trade receivables	**18,174**	14,037
Less: provision for impairment	**(81)**	(60)
Trade receivables, net	**18,093**	13,977

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

The movements in provision for trade receivables are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**60**	–
Provision for impairment *(note 9)*	**81**	60
Receivables written off during the year as uncollectiable	**(60)**	–
At 31 December	**81**	60

The provision for impairment of trade receivables has been included in "administrative expenses" in the consolidated income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

21 TRADE RECEIVABLES *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**13,914**	11,470
31 days to 90 days	**2,305**	2,201
91 days to 180 days	**1,789**	232
181 days to 360 days	**83**	47
Over 360 days	**2**	27
	18,093	13,977

At 31 December 2011, trade receivables of approximately HK$5,400,000 (2010: HK$1,456,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables, based on the number of overdue days, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 90 days	**2,343**	1,164
91 days to 180 days	**2,851**	221
181 to 360 days	**195**	44
Over 360 days	**11**	27
	5,400	1,456

At 31 December 2011, trade receivables of approximately HK$81,000 (2010: HK$60,000) were impaired. The impaired receivables relate to customers which are unlikely to be recovered. The ageing analysis of these trade receivables based on due date is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
91 days to 180 days	**79**	60
181 days to 360 days	**2**	–
	81	60

21 TRADE RECEIVABLES *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
US$	**18,045**	13,744
RMB	**48**	233
	18,093	13,977

At 31 December 2011 and 2010, the fair value of the trade receivables approximate their carrying value.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables mentioned above.

At 31 December 2011, the Group's trade receivables with an aggregate carrying amount of approximately HK$3,145,000 (2010: nil) were pledged to secure banking facilities granted to the Group (note 26).

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	HK$'000
Equity securities listed in Hong Kong, at fair value	**–**	–
Market value of securities	**–**	–

The cost of investment is approximately HK$286,000 (2010: HK$286,000). Full provision for impairment of approximately HK$286,000 (2010: HK$286,000) (note 9) had been made.

23 BANK AND CASH BALANCES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**13,002**	49,699	**1,157**	20,372
Maximum exposure to credit risk	**12,796**	49,519	**1,155**	20,368

23 BANK AND CASH BALANCES *(Continued)*

Bank and cash balances are denominated in the following currencies:

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
HK$	**1,555**	26,029	**1,155**	20,370
RMB	**5,908**	15,936	**–**	–
US$	**5,539**	7,734	**2**	2
	13,002	49,699	**1,157**	20,372

24 TRADE PAYABLES

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

	Group	
	2011 HK$'000	2010 HK$'000
Within 30 days	**7,362**	7,198
31 days to 90 days	**7,372**	7,008
91 days to 180 days	**4,920**	2,675
181 days to 360 days	**715**	842
Over 360 days	**320**	170
	20,689	17,893

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

	Group	
	2011 HK$'000	2010 HK$'000
HK$	**65**	454
US$	**6,315**	4,534
RMB	**14,309**	12,905
	20,689	17,893

At 31 December 2011 and 2010, the fair value of the trade payables approximate their carrying value.

25 DUE TO A SUBSIDIARY

The amount due to a subsidiary under current liabilities of the Company is unsecured, interest free and repayable on demand.

26 BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans	**37,537**	26,021	**–**	–
Trust receipt loans	**7,293**	8,847	**–**	–
Other loans	**18,575**	3,432	**5,500**	–
Total borrowings	**63,405**	38,300	**5,500**	–
Secured *(notes (a))*	**54,231**	26,121	**2,000**	–
Unsecured	**9,174**	12,179	**3,500**	–

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

At 31 December 2011 and 2010, the borrowings were repayable as follows:

(a) Group

	Bank loans		Trust receipt loans		Other loans		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**37,537**	26,021	**7,293**	8,847	**18,575**	3,432	**63,405**	38,300

(b) Company

	Other loans		Total	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**5,500**	–	**5,500**	–

Notes:

(a) Facilities

At 31 December 2011, the Group's borrowings were secured by:

(i) charges over certain of the Group's property, plant and equipment, prepaid land lease payments, investment properties, mining right and trade receivables (notes 12, 13, 14, 16 and 21) of aggregate carrying value of approximately HK$86,867,000 (2010: HK$55,654,000);

(ii) personal guarantee by the Company's directors (note 36(iii)) of approximately HK$10,691,000 (2010: HK$5,202,000); and

(iii) personal guarantee by a director of the Company's indirect non-wholly owned subsidiary (note 36(iii)) of approximately HK$2,503,000 (2010: nil).

26 BORROWINGS *(Continued)*

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

	Group	
	2011	2010
	HK$'000	HK$'000
Bank loans		
– Floating rate (2011: HK$4,196,000; 2010: HK$4,609,000)	**Prime rate**	Prime rate
– Floating rate (2011: HK$2,503,000; 2010: HK$494,000)	**Prime rate +2.25%**	Prime rate
– Fixed rate (2011: HK$$6,168,000; 2010: HK$5,876,000)	**8.53%**	5.56%
– Fixed rate (2011: HK$24,670,000; 2010: HK$15,042,000)	**6.94%**	5.10%-5.31%
Trust receipt loans		
– Floating rate (2011: 2,798,000; 2010: HK$8,254,000)	**LIBOR+4.25%**	LIBOR+2.25%
– Floating rate (2011: 4,495,000; 2010: HK$593,000)	**Prime rate**	Prime rate
Other loans		
– Fixed rate (2011: HK$12,901,000; 2010: HK$3,432,000)	**30%**	18%
– Floating rate (2011: HK$5,674,000; 2010: Nil)	**Benchmark interest rate*+25%**	N/A

* *Benchmark interest rate represents the benchmark interest rate announced by the People's Bank of China for loans of the same term and priority.*

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**5,300**	8,847	**–**	–
HK$	**14,192**	4,608	**5,500**	–
RMB	**43,913**	24,845	**–**	–
	63,405	38,300	**5,500**	–

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

On 28 March 2008, the Company issued the convertible notes of nominal value of HK$254,064,835 ("CN1") as part of the consideration for an acquisition of subsidiaries.

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

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

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

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

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

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

On 2 October 2009, the convertible notes of nominal value of approximately HK$35,416,000 ("CN2") were issued, and the subscription price payable by CN2 holders was satisfied by capitalizing outstanding principal amount of the promissory notes, which were issued on 28 March 2008, of approximately HK$35,416,000. The terms of CN2 are same as Altered CN1.

The management designated and disclosed the entire Altered CN1 and the entire CN2 as "financial liabilities at fair value through profit or loss" in the consolidated statement of financial position.

	Group and Company		
	Altered CN1	**CN2**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2010	391,260	54,540	445,800
Converted into ordinary shares of the Company during the year	(129,864)	(19,320)	(149,184)
Fair value gain *(notes 9 and 10)*	(41,221)	(10,110)	(51,331)
At 31 December 2010 and 1 January 2011	**220,175**	**25,110**	**245,285**
Converted into ordinary shares of the Company during the year	**(210,013)**	**(23,951)**	**(233,964)**
Fair value gain *(notes 9 and 10)*	**(10,162)**	**(1,159)**	**(11,321)**
At 31 December 2011	**–**	**–**	**–**

The fair value of financial liabilities at fair value through profit or loss of Altered CN1 and CN2 were estimated with reference to the Company's share price at the end of each reporting period.

During the year ended 31 December 2011, the Company issued 754,721,872 (2010: 403,200,000) (note 29) ordinary shares of HK$0.02 each in relation to the conversion of Altered CN1 and CN2 at the conversion price of HK$0.25 per share (2010: HK$0.25). Accordingly, the carrying value of Altered CN1 and CN2 was decreased by approximately HK$233,964,000 (2010: HK$149,184,000) in aggregate.

During the year ended 31 December 2011, a fair value gain of approximately HK$11,321,000 (2010: HK$51,331,000) was recognised arising from the change in fair value of Altered CN1 and CN2.

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

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

28 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities related to income tax levied by same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The net amounts of the Group are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Deferred income tax assets to be recovered after more than 12 months	**–**	280
Deferred income tax liabilities to be settled after more than 12 months	**(187,059)**	(177,550)
Deferred income tax liabilities, net	**(187,059)**	(177,270)

The net movement in the deferred tax accounts is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Beginning of the year	**(177,270)**	(168,301)
Charged to consolidated income statement *(note 8)*	**(430)**	(386)
Charged to equity	**(662)**	(2,861)
Acquisition of a subsidiary *(note 31)*	**(89)**	–
Exchange difference	**(8,608)**	(5,722)
End of the year	**(187,059)**	(177,270)

28 DEFERRED INCOME TAX *(Continued)*

The movements in deferred income tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

Deferred income tax assets:

	Group Provision for amount due from a jointly controlled entity	
	2011 HK$'000	2010 HK$'000
Beginning of the year	**280**	–
(Charged)/credited to consolidated income statement	**(280)**	280
End of the year	**–**	280

Deferred income tax liabilities:

	Group			
	Accelerated tax depreciation HK$'000	**Revaluation surplus on investment properties and leasehold land and buildings** HK$'000	**Exploration and evaluation assets** HK$'000	**Total** HK$'000
At 1 January 2010	1,016	2,684	164,601	168,301
Charged to equity	–	2,861	–	2,861
Charged/(credited) to consolidated income statement	(1,016)	1,682	–	666
Exchange difference	–	93	5,629	5,722
At 31 December 2010 and 1 January 2011	**–**	**7,320**	**170,230**	**177,550**
Acquisition of a subsidiary *(note 31)*	**89**	**–**	**–**	**89**
Charged to equity	**–**	**662**	**–**	**662**
Charged to consolidated income statement	**–**	**150**	**–**	**150**
Exchange difference	**–**	**167**	**8,441**	**8,608**
At 31 December 2011	**89**	**8,299**	**178,671**	**187,059**

The Group has tax losses arising in Hong Kong of approximately HK$6,569,000 (2010: HK$5,952,000) and the PRC of approximately HK$22,245,000 (2010: HK$13,948,000), which are available for offsetting against future taxable profits of the subsidiaries in which the losses arose, respectively. Tax losses of approximately HK$23,381,000 (2010: HK$17,562,000) is subject to further approval by relevant tax authorities. The tax losses arising in the PRC are due to expire within five years. No deferred tax assets has been recognised due to the unpredictability of future taxable profit of these subsidiaries.

29 SHARE CAPITAL

		Number of shares		Ordinary share capital	
	Note	**2011**	2010	**2011**	2010
				HK$'000	HK$'000
Authorised:					
Ordinary shares of HK$0.02 each		**10,000,000,000**	10,000,000,000	**200,000**	200,000
Issued and fully paid:					
At beginning of year		**5,014,426,800**	4,427,306,800	**100,289**	88,546
Issue of shares on					
– Exercise of share options	*(note (a))*	**156,000**	3,920,000	**3**	79
– Conversion of convertibles notes	*(note (b))*	**754,721,872**	403,200,000	**15,094**	8,064
– On placement	*(note (c))*	**–**	180,000,000	**–**	3,600
At end of year		**5,769,304,672**	5,014,426,800	**115,386**	100,289

Notes:

(a) *During the year, the Company issued 156,000 (2010: 3,920,000) (note 32) ordinary shares of HK$0.02 each in relation to the exercise of the share options at an exercise price of HK$0.1016 per share (2010: HK$0.1016). The difference between the exercise price of the share options and the par value of the issued ordinary shares of the Company of approximately HK$12,000 (2010: HK$320,000) (note 30(b)) was credited to the Company's share premium account. In addition, the relevant portion of share-based payment reserve in relation to the share options exercised during the year of approximately HK$11,000 (2010: HK$279,000) (note 30(b)) was transferred to the Company's share premium account.*

(b) *On 25 January 2011, the Company issued 754,721,872 (2010: 403,200,000) (note 27) ordinary shares of HK$0.02 each in relation to the conversion of the convertible notes at the conversion price of HK$0.25 each per share. The difference between the fair value of the conversion shares on the issue date and the par value of the issued ordinary shares of the Company of approximately HK$218,870,000 (2010: HK$141,120,000) (note 30(b)) was credited to the Company's share premium account.*

(c) *On 18 January 2010, the Company entered into a placing and subscription agreement with a placing agent and Legend Win Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company ("Legend Win"), for (i) the placing of up to an aggregate of 180,000,000 ordinary shares of HK$0.02 each of the Company to independent investors at the placing price of HK$0.339 per share; and (ii) the subscription of up to 180,000,000 new ordinary shares of HK$0.02 each of the Company by Legend Win Profits Limited at the subscription price of HK$0.339 per share. The subscription of 180,000,000 new ordinary shares of the Company was completed on 29 January 2010. The premium on the issue of these new ordinary shares of approximately HK$55,828,000 (after deducting placing expenses) (note 30(b)) was credited to the Company's share premium account for the year ended 31 December 2010.*

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

30 RESERVES

(a) Group

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

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Share-based payment reserve HK$'000	Non-listed warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	560,507	125,161	5,113	409	(591,358)	99,832
Total comprehensive income for the year	–	–	–	–	51,222	51,222
Transactions with equity holders						
Issue of shares upon exercise of share options *(note 29(a))*	599	–	(279)	–	–	320
Conversion of convertible notes to ordinary shares *(note 29(b))*	141,120	–	–	–	–	141,120
Issue of shares on placements *(note 29(c))*	55,828	–	–	–	–	55,828
Release on forfeiture of non-listed warrants	–	–	–	(409)	409	–
Recognition of share-based payment *(note 32)*	–	–	7,852	–	–	7,852
Release on forfeiture of share options *(note 32)*	–	–	(218)	–	218	–
Total transactions with equity holders	197,547	–	7,355	(409)	627	205,120
At 31 December 2010	758,054	125,161	12,468	–	(539,509)	356,174
Total comprehensive loss for the year	–	–	–	–	(9,646)	(9,646)
Transactions with equity holders						
Issue of shares upon exercise of share options *(note 29(a))*	23	–	(11)	–	–	12
Conversion of convertible notes to ordinary shares *(note 29(b))*	218,870	–	–	–	–	218,870
Recognition of share-based payment *(note 32)*	–	–	539	–	–	539
Release on forfeiture of share options *(note 32)*	–	–	(694)	–	694	–
Total transactions with equity holders	218,893	–	(166)	–	694	219,421
At 31 December 2011	976,947	125,161	12,302	–	(548,461)	565,949

Loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$9,646,000 (2010: profit attributable to equity holders of the Company of approximately HK$51,222,000).

31 ACQUISITION OF A SUBSIDIARY

On 6 July 2011, Bestever Developments Limited, an indirect wholly owned subsidiary of the Company, acquired an additional 1% equity interest in MRG at a cash consideration of US$3,500 (note 18(d)). The acquisition was completed on 6 July 2011. As a result, the Group's interest in MRG has increased to 51% and MRG has become a subsidiary of the Group.

Recognised amount of identified assets, liabilities assumed and the non-controlling interest at the date of acquisition are as follows:

	HK$'000
Bank and cash balances	100
Property, plant and equipment *(note 12)*	956
Inventories	6,989
Trade receivables	2,921
Prepayments, deposits and other receivables	1,941
Tax recoverable	151
Trade payables	(7,657)
Accruals and other payables	(291)
Borrowings	(2,079)
Deferred tax liabilities *(note 28)*	(89)
Total identifiable net assets	2,942
Transfer from interest in a jointly controlled entity *(note 18)*	(1,471)
Non-controlling interests	(1,441)
Negative goodwill	(3)
Total consideration paid	27

The consideration of the acquisition was settled by cash and the consideration had been fully paid by the Group during the year ended 31 December 2011.

	HK$'000
Cash and cash equivalents acquired	100
Cash consideration settled	(27)
Cash inflow on acquisition	73

31 ACQUISITION OF A SUBSIDIARY *(Continued)*

The non-controlling interests in MRG were determined by using the net assets value of MRG at the date of acquisition.

Acquisition-related costs of approximately HK$57,000 have been charged to "administrative expenses" in the consolidated income statement for the year ended 31 December 2011.

Negative goodwill of approximately HK$3,000 has been credited to "other gains, net" in the consolidated income statement for the year ended 31 December 2011.

Revenue included in the consolidated income statement since 7 July 2011 contributed by MRG was approximately HK$8,555,000. MRG made a loss of approximately HK$978,000 over the same period.

Had MRG been consolidated from 1 January 2011, the consolidated income statement for the year ended 31 December 2011 would show revenue of approximately HK$200,116,000 and loss of approximately HK$40,091,000.

32 SHARE-BASED PAYMENT

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who are invited at directors' discretion. Eligible participants, including executive directors, non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group are invited to take up options to subscribe for shares of the Company (the "Shares"). The Scheme became effective on 28 May 2002.

The exercise price of the share options is determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share on the date of offer.

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

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

32 SHARE-BASED PAYMENT *(Continued)*

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
2009(a) *(note (c))*	27 October 2009	9,000,000	HK$0.4000	27 October 2010 to 27 October 2012
2009(b) *(note (c))*	27 October 2009	9,000,000	HK$0.6000	27 October 2011 to 27 October 2012
2009(c) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2009 to 21 December 2010
2009(d) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2010 to 21 December 2012
2009(e) *(note (d))*	21 December 2009	3,000,000	HK$0.6000	21 December 2011 to 21 December 2012
2010(a) *(note (e))*	11 January 2010	34,000,000	HK$0.4000	11 January 2010 to 11 January 2012
2010(b) *(note (e))*	11 January 2010	34,000,000	HK$0.6000	11 January 2010 to 11 January 2012
Total		219,260,000		

Notes:

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

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

32 SHARE-BASED PAYMENT *(Continued)*

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

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

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

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

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

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

(e) *The share option granted to executive directors on 11 January 2010 are exercisable in the following manner:*

Exercise period	Maximum exercisable percentage	
	2010(a)	**2010(b)**
11 January 2010 to 11 January 2012	100%	100%

32 SHARE-BASED PAYMENT *(Continued)*

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

For the year ended 31 December 2011

	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
				(note 29(a))				
Employees	2006(a)	5,480,000	–	–	–	5,480,000	5,480,000	HK$0.1016
	2006(b)	41,418,600	–	(156,000)	–	41,262,600	41,262,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	3,300,000	HK$0.7400
	2009(a)	9,000,000	–	–	(3,000,000)	6,000,000	6,000,000	HK$0.4000
	2009(b)	9,000,000	–	–	(3,000,000)	6,000,000	6,000,000	HK$0.6000
	2009(d)	3,000,000	–	–	–	3,000,000	3,000,000	HK$0.4240
	2009(e)	3,000,000	–	–	–	3,000,000	3,000,000	HK$0.6000
	2010(a)	34,000,000	–	–	–	34,000,000	34,000,000	HK$0.4000
	2010(b)	34,000,000	–	–	–	34,000,000	34,000,000	HK$0.6000
		142,198,600	–	(156,000)	(6,000,000)	136,042,600	136,042,600	
Weighted average closing price		–	–	HK$0.2249	–	–	–	
Weighted average exercise price		HK$0.3747	–	HK$0.1016	HK$0.5000	HK$0.3695	HK$0.3695	

For the year ended 31 December 2010

	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
				(note 29(a))				
Employees	2006(a)	5,480,000	–	–	–	5,480,000	5,480,000	HK$0.1016
	2006(b)	45,338,600	–	(3,920,000)	–	41,418,600	41,418,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	3,300,000	HK$0.7400
	2009(a)	9,000,000	–	–	–	9,000,000	9,000,000	HK$0.4000
	2009(b)	9,000,000	–	–	–	9,000,000	–	HK$0.6000
	2009(c)	3,000,000	–	–	(3,000,000)	–	–	HK$0.4240
	2009(d)	3,000,000	–	–	–	3,000,000	3,000,000	HK$0.4240
	2009(e)	3,000,000	–	–	–	3,000,000	–	HK$0.6000
	2010(a)	–	34,000,000	–	–	34,000,000	34,000,000	HK$0.4000
	2010(b)	–	34,000,000	–	–	34,000,000	34,000,000	HK$0.6000
		81,118,600	68,000,000	(3,920,000)	(3,000,000)	142,198,600	130,198,600	
Weighted average closing price		–	–	HK$0.4615	–	–	–	
Weighted average exercise price		HK$0.2583	HK$0.5000	HK$0.1016	HK$0.4240	HK$0.3747	HK$0.3539	

32 SHARE-BASED PAYMENT *(Continued)*

The estimated fair value of options granted under the Scheme on 19 June 2006, 5 July 2007, 27 October 2009, 21 December 2009 and 11 January 2010 measured at date of grant, were approximately HK$8,604,000, HK$1,077,000, HK$2,081,000, HK$983,000 and HK$5,749,000 respectively. The following significant assumptions and estimates were used by the independent valuers to derive the fair value of the options granted during the year ended 31 December 2010, using the Black-Scholes Model:

	Date of grant 11 January 2010	
	2010(a)	**2010(b)**
Expected volatility	72.12%	72.12%
Expected life	1	1
Risk-free interest rate	0.21%	0.21%
Expected dividend yield	Nil	Nil

The Group recognised HK$539,000 (2010: HK$7,852,000) (note 30(b)) share-based payment expenses in the consolidated income statement for the year ended 31 December 2011, of which the amount has been included as staff costs, and the corresponding amount has been credited to share-based payment reserve.

If the options remain unexercised after the exercise period, the options expire. Options are forfeited if the employee leaves the Group before the options vest. For the year ended 31 December 2011, the total carrying value of forfeited options is approximately HK$694,000 (2010: HK$218,000) (note 30(b)) which has been transferred from share-based payment reserve to accumulated losses.

33 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2010: HK$Nil).

34 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Property, plant and equipment	**808**	–

35 LEASE COMMITMENTS

At 31 December 2011, the Group's future aggregate minimum lease receivables and payables under non-cancellable operating leases are as follows:

	Group	
	2011 **HK$'000**	2010 HK$'000
As lessor:		
No later than 1 year	**112**	97
As lessee:		
No later than 1 year	**3,940**	1,429
Later than 1 year and no later than 5 years	**2,964**	764
Later than 5 years	**95**	98
	6,999	2,291

Operating lease receivables represented rental receivables of the Group for its investment properties under operating lease arrangements, with leases negotiated for average terms of one year and rental are fixed over the lease terms and do not include contingent rentals.

Operating lease payables represented rental payables of the Group for its offices and operational premises. Leases are negotiated for an average term of one to four years and rental are fixed over the lease terms and do not include contingent rentals.

36 RELATED PARTY TRANSACTIONS

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

(i) Particulars of significant transactions between the Group and related parties

	2011 **HK$'000**	2010 HK$'000
Sales of goods to a jointly controlled entity *(note a)*	**3,987**	10,806
Product development, sale and marketing services fee paid to a related company *(note b)*	**1,663**	1,626
Interest expenses paid to a shareholder *(note c)*	**–**	120

Notes:

(a) *A shareholder of the jointly controlled entity, which became an indirect non-wholly owned subsidiary during the year, is also the beneficial owner of 30% equity interest in the Company's subsidiary making the sales.*

(b) *The sole owner of the related company is also the director and beneficial owner of 49% (2010: 49%) equity interest in the Company's subsidiary paying for the services.*

(c) *Interest was charged at 11% per annum on the principal amount of loan payable to a shareholder.*

36 RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Key management compensation

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	**14,061**	11,830
Share based payments	**598**	7,853
Retirement benefits scheme contributions	**544**	572
	15,203	20,255

(iii) Guarantee provided by related parties

At 31 December 2011, the Group's borrowings of approximately HK$10,691,000 (2010: HK$5,202,000) and HK$2,503,000 (2010: nil) were secured by personal guarantee by the Company's directors and a director of the Company's indirect non-wholly owned subsidiary, respectively (note 26).

37 EVENT AFTER THE REPORTING PERIOD

On 1 February 2012, the Company entered into a placing and subscription agreement with a placing agent and Legend Win for (i) the placing of up to an aggregate of 200,000,000 ordinary shares of HK$0.02 each of the Company to independent investors at the placing price of HK$0.06 per share; and (ii) the subscription of up to 200,000,000 new ordinary shares of HK$0.02 each of the Company by Legend Win Profits Limited at the subscription price of HK$0.06 per share. The subscription of 200,000,000 new ordinary shares of the Company was completed on 13 February 2012 and its net proceeds (after deducting placing expenses) amounted to approximately HK$11,632,000.

38 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2012.

Five Years Financial Summary

The following is a summary of the published consolidated results and statement of assets and liabilities of the Group for the last five years:

Results

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**184,550**	186,095	121,556	133,357	111,189
(Loss)/profit before income tax	**(39,032)**	6,315	(201,644)	(397,205)	(141,384)
Income tax (expense)/credit	**(1,155)**	(1,344)	(1,988)	150,144	20,035
(Loss)/profit for the year	**(40,187)**	4,971	(203,632)	(247,061)	(121,349)
Attributable to:					
Equity holders of the Company	**(40,539)**	6,313	(203,314)	(247,430)	(121,145)
Non-controlling interests	**352**	(1,342)	(318)	369	(204)
	(40,187)	4,971	(203,632)	(247,061)	(121,349)

Assets and liabilities

	31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**976,425**	951,152	897,149	885,560	516,667
Total liabilities	**(294,958)**	(500,318)	(699,029)	(591,678)	(166,624)
Net assets	**681,467**	450,834	198,120	293,882	350,043
Equity attributable to equity holders of the Company	**679,383**	450,543	196,487	291,931	348,461
Non-controlling interests	**2,084**	291	1,633	1,951	1,582
Total equity	**681,467**	450,834	198,120	293,882	350,043

Notes:

(1) The consolidated income statement for the years ended 31 December 2011 and 2010 are set out on page 32 of this annual report.

(2) The consolidated statement of financial position at 31 December 2011 and 31 December 2010 are set out on pages 34 to 35 of this annual report.