Kiu Hung Energy



2008 ANNUAL REPORT 年報

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

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

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. CHAN Kwok Yuen, Elvis, CFA, FCCA, FCPA

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor
Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
29th Floor
Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

COMPANY HOMEPAGE/WEBSITE

http://www.kiuhung.com

PRINCIPAL BANKERS

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

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

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Chairman's Statement

On behalf of the board of the directors (the "Board") of Kiu Hung Energy Holdings Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2008.

RESULTS AND DIVIDENDS

For the financial year ended 31 December 2008, the Group recorded turnover and loss attributable to shareholders of approximately HK$133.4 million (2007: HK$111.2 million) and HK$158.5 million (2007: HK$8.2 million), respectively. Basic loss per share for the year was HK4.09 cents (2007: HK0.26 cent). The Board does not recommend the payment of any dividend in respect of the year.

BUSINESS REVIEW

Toys and Gifts Business

Looking back over the past year, notwithstanding the global economic recession, turnover of the Group's toys and gifts business increased by approximately 20% from HK$111.2 million in 2007 to HK$133.4 million in 2008 as a result of the continual growth of the Group's decorative flags and garden products business and the increased sale orders secured from a number of prestigious customers. Gross profit margin was also improved from approximately 29.5% in 2007 to approximately 31.2% in 2008 attributed to the stringent cost control measures adopted by the Group.

Coal Business

The global financial crisis, which triggered a sharp economic downturn and caused extreme volatility in the financial market during the year, had almost retarded all fund raising activities. The shrink in worldwide economy led to a plunge in commodity prices, and the market price of thermal coal was also under pressure. The operation and progress of our coal mining business were adversely affected to a certain extent. In response to this situation, the management has decided to slow down the development of our coal mines.

During the year, the Group has completed the acquisition of the entire equity interest in Tongliao City Heng Yuan Mining Co., Ltd. ("Heng Yuan"). Heng Yuan is the holder of (i) the mining rights of Huanghuashan Coal Mine located in the Inner Mongolia Autonomous Region ("Inner Mongolia") of the People's Republic of China ("PRC"), which has estimated coal resources of approximately 7.85 million tons of anthracite coal and (ii) the exploration rights of the Banyanhushuo Coalfield located in Inner Mongolia, which has estimated coal resources of approximately 434.76 million tons of high quality thermal coal. Together with the 128.86 million tons of thermal coal resources of the Guerbanhada Coal Mine located in Inner Mongolia, the total amount of coal resources of the Group has expanded to over 570 million tons.

Chairman's Statement

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

PROSPECTS

Looking forward, we believe the year of 2009 will continue to be difficult and challenging. The Group will focus on the development our coal energy business and will continue to capture fund raising opportunities once there are signs of stabilization and that the financial market is returning to normal. The Huanghuashan Coal Mine is undertaking a capacity expansion program and will commence commercial production by the fourth quarter of 2009. As to the Guerbanhada Coal Mine, we will commence the preliminary work of its mining license application this year and will commence commercial operation approximately one year after sufficient capital is raised for its development. For the Bayanhushuo Coalfield, the exploration work is expected to be completed in 2009. In addition, we will continue to strengthen our toys and gifts business in order to maximise the benefit of our shareholders.

We believe the continuous economic growth in China will lead to an increasing demand for energy. The Group will continue to explore other investment opportunities in the energy and natural resources industries with earning potentials in order to transform itself into an energy conglomerate with sustainable growth prospect. I believe our coal business will lead the Group into a high growth era and we are confident in the prospects of the Group.

APPRECIATION

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

HUI Kee Fung
Chairman

Hong Kong, 27 April 2009

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

For the financial year ended 31 December 2008 (the "Year"), the Group recorded a turnover of approximately HK$133.4 million (2007: HK$111.2 million), representing an increase of approximately 20% as compared with the preceding year. The Group's loss attributable to shareholders for the Year was approximately HK$158.5 million (2007: HK$8.2 million). Basic loss per share for the Year was HK4.09 cents (2007: HK0.26 cent).

DIVIDEND

The board of directors does not recommend the payment of any dividend in respect of the Year (2007: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 June 2009 to 30 June 2009, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the attendance at the annual general meeting of the Company to be held on 30 June 2009, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 22 June 2009.

BUSINESS AND OPERATIONAL REVIEW

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. During the Year, the Group has experienced improved sales performance for its toys and gifts business as a result of the increase in the sales of decorative flags and garden products through the "Toland" brand name and the increased sale orders secured from a number of prestigious customers. Gross profit ratio also increased from 29.5% in 2007 to 31.2% in 2008 as a result of the cost control measures adopted by the Group. The mining and exploration business has not yet commenced any commercial production for the Year.

The Group has made a goodwill impairment loss of approximately HK$256.3 million and mining rights impairment loss of approximately HK$35.5 million for the Year in respect of the Group's coal mine investments in Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Co., Ltd. ("Heng Yuan"). In addition, the Group has recorded a fair value gain on derivative component of convertible notes in the amount of approximately HK$146.0 million and interest expenses on the liability component of convertible notes of approximately HK$11.5 million. These were non-cash items and were not expected to have material adverse effects on the Group's cash flow.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the People's Republic of China ("PRC"). The Group had cash and bank balances of approximately HK$69.0 million (2007: HK$70.6 million) as at the balance sheet date. The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, of which approximately 93% (2007: 89%) bore interest at fixed lending rate. At 31 December 2008, the Group's bank and other borrowings amounted to approximately HK$57.0 million (2007: HK$33.3 million), out of which approximately 68% (2007: 96%) was repayable within one year. In addition, the Group also has promissory notes of approximately HK$95.4 million due on 28 September 2009 and convertible notes with face value of approximately HK$254.1 million due on 28 March 2010 which were issued in relation to the Group's acquisitions of Lucky Dragon and Heng Yuan. The debt/equity ratio of the Group calculated as a ratio of total bank and other borrowings (including promissory notes and convertible notes) to total equity was approximately 86% as at 31 December 2008 (2007: 7%). Net current liabilities as at 31 December 2008 was approximately HK$77.5 million (2007: net current assets of HK$42.6 million) and the current ratio was approximately 54% (2007: 170%). As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant and the Group had not used any financial instruments for hedging during the Year.

As at 31 December 2008, certain leasehold land and buildings held by the Group with carrying values of approximately HK$9.3 million were pledged to secure general banking facilities granted to the Group.

As at 31 December 2008, the Group did not have any significant capital commitment or contingent liabilities.

MATERIAL ACQUISITIONS

During the Year, the Group has completed the acquisition of the entire equity interest in Heng Yuan. Heng Yuan is the holder of the mining rights of the Huanghuashan Coal Mine and the exploration rights of the Bayanhushuo Coalfield which are located in the Inner Mongolia Autonomous Region of the PRC. Details of the Acquisition were set out in the Company's circular dated 31 January 2008.

Management Discussion and Analysis

INFORMATION OF OUR COAL MINES

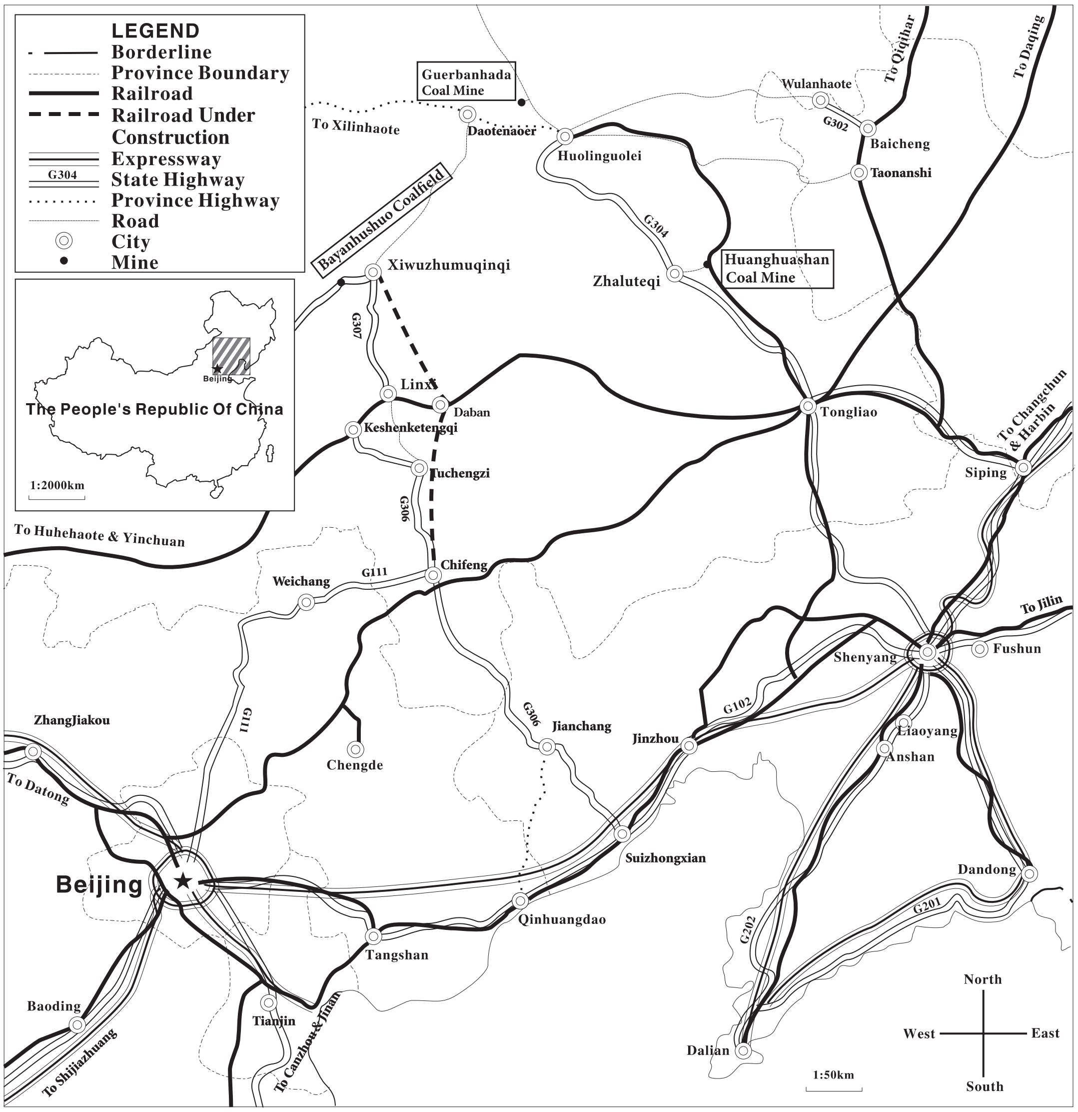
The Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia and is close to the railway. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, the Huanghuashan Coal Mine has an estimated coal resources of approximately 7.85 million tons of semi-anthracite coal. The current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB260 per ton. In addition, the surrounding area of the Huanghuashan Coal Mine has an additional estimated coal resources of approximately 105.7 million tons in accordance with the Chinese classification. The Group intends to apply for the exploration license for such surrounding area of the Huanghuashan Coal Mine in 2010.

The Guerbanhada Coal Mine is located in Xilinguolemeng of Inner Mongolia and is close to highways and railways. According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, the Guerbanhada Coal Mine has an estimated coal resources of approximately 106 million tons of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. According to a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007, the estimated coal reserve of the Guerbanhada Coal Mine has increased to approximately 128.86 million tons as a result of the completion of the detailed stage of exploration. The current at-pit market price of the coal expected to be extracted from the Guerbanhada Coal Mine is approximately RMB150 per ton.

Bayanhushuo Coalfield is located in Xilinguolemeng of Inner Mongolia in the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, the Bayanhushuo Coalfield has estimated coal resource of approximately 434.76 million tons of high quality thermal coal. The current at-pit market price of the coal expected to be extracted from the Bayanhushuo Coal Mine is approximately RMB170 per ton.

Management Discussion and Analysis

LOCATION OF OUR COAL PROJECTS



Management Discussion and Analysis

BUSINESS PROSPECTS

We believe our newly diversified coal business is important for the Group as it enable us to tap the energy and natural resources business and to enter into a diversified and high growth development stage. We are positive about the prospect of the coal mining industry in the PRC. As coal accounted for approximately 67% of the PRC's primary energy consumption, we believe that the demand for coal from the electricity and other industries will continue to be robust in the foreseeable future in view of the continual economic growth in the PRC. As the Group has an aggregate amount of coal resources of over 570 million tons, we will be able to tap the energy and natural resources business with high growth potential in order to maximise our Shareholders' value.

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

CAPITAL STRUCTURE AND USE OF PROCEEDS

As at 31 December 2008, the capital structure of the Company is constituted of 4,115,759,800 ordinary shares of HK$0.02 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options to subscribe for shares in the Company. During the Year, 2,169,200 new shares have been issued by the Company as a result of the exercise of share options by the option holders. During the Year, no new share options have been granted under the share option scheme adopted by the Company. As at 31 December 2008, 65,939,600 share options remained outstanding. Subsequent to the balance sheet date and up to the date of this report, no share options have been exercised by the option holders.

During the Year, 600,000,000 new shares have been issued by the Company as consideration shares for the acquisition of Hang Yuan. Further details of the acquisition were set out in the Company's circular dated 31 January 2008. In addition, 107,000,000 new shares have been issued by the Company at a placing price of HK$0.27 per share upon completion of a share placement in December 2008. The net proceeds of the placement amounted to approximately HK$28 million and has been applied as general working capital for the Group's coal energy business in accordance with the proposed application set out in the Company's announcements dated 30 November 2008. Further details of the share placement were set out in the Company's announcements dated 30 November 2008, 11 December 2008 and 15 December 2008, respectively. Further details of the movement of the Company's share capital were also set out in note 30 to the financial statements.

Management Discussion and Analysis

Pursuant to the Company's announcement dated 3 July 2008, the Board has resolved to change the application of i) the unapplied balance of the net proceeds of the 2006 open offer of approximately HK$2 million and ii) the unapplied balance of the net proceeds raised from the 2001 new issue and placing of shares of approximately HK$5 million to be used for the development and construction of the Group's coal mining facilities. These net proceeds remained unused as at the date of this report and the Group has placed such unused funding with licensed banks in Hong Kong and the PRC. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and its shareholders.

EMPLOYMENT, TRAINING AND DEVELOPMENT

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

Profile of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. HUI Kee Fung, aged 48, is the Chairman of the Company. He is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Hui has over 20 years of experience in various industries. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management Association, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the Vice-Chairman of Putian Foreign Investors' Association in Fujian, the PRC, an Executive Director of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Deputy Managing Director of The Fujian Putian University in the PRC, the Honorary Dean of the Xiong Xing Business Administration College in The Fujian Putian University in the PRC and an Honorary Citizen of Putain, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. HUI Ki Yau, aged 47, is the Chief Executive Officer of the Company. He is responsible for the operations and the sales and marketing functions of the Group. Mr. Hui has over 15 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, 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 40, is an Executive Director of the Company and is responsible for the financial affairs, overall management and purchasing affairs of the Group. She has over 15 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

Independent Non-Executive Directors

Mr. Peng Guanghui, aged 45, is a Partner and the Chief Accountant of Xiamen Yong He Certified Public Accountants Co., Ltd. in the PRC. Mr. Peng graduated from the Fujian Financial Institution of the PRC and has over 20 years of experience in the fields of auditing, accounting and finance. Mr. Peng is also a Certified Public Accountant in the PRC and a member of The Chinese Institute of Certified Public Accountants.

Mr. Kung King Ching, Conrad, aged 44, is the General Manager of Tat Shing Machinery Factory in Hong Kong and a director of Putian Hua Gang Industrial Development Co., Ltd. in the People's Republic of China. Mr. Kung holds a Bachelor of Administration Degree from the University of Regina in Canada and has over 20 years of experience in the trading and manufacturing industries.

Mr. TANG Rongzu, aged 65, is the Deputy General Manager of Putian City North Coast Wood Products Co., Ltd. in the People's Republic of China. Mr. Tang had also worked as the General Manager of Putian City Processing and Assembly with Supplied Materials and Parts Company and the Chief Executive of Putian City Customs Declaration Company for over 15 years. Mr. Tang has over 20 years of experience in the trading industry.

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Mr. CHAN Kwok Yuen, Elvis, aged 36, is the Chief Financial Officer, Qualified Accountant and Company Secretary of the Company and is responsible for the accounting, financial and secretarial affairs of the Group. Mr. Chan is a Fellow Member of the Hong Kong Institute of Certified Public Accountants, a Fellow Member of the Chartered Association of Certified Accountants, a Chartered Accountant of the Institute of Chartered Accountants in England and Wales, a Chartered Financial Analyst of the CFA Institute, a Member of the Hong Kong Society of Financial Analysts and an Associate Member of the Society of Technical Analysts of the United Kingdom. Mr. Chan holds a bachelor degree in commerce from Queen's University of Canada and has over 10 years of experience in the field of accounting and finance. Mr. Chan is currently pursuing an EMBA in Coal Industry and an EMBA in Private Equity and Venture Capital Investment at Tsinghua University in the PRC.

Mr. YANG Runzhi, aged 54, is the Managing Director of Inner Mongolia Mingrunfeng Energy Co., Ltd.. He has 25 years of experience in military and government and over 10 years of experience in the coal industry in Inner Mongolia. He is a Senior Economist for coal industry and has worked as the General Manager of Beijing Zhongmei Hengrun Co., Ltd. (北京中煤恆潤有限公司, a subsidiary of the China Coal Group). He has in-depth knowledge in the sales and marketing of coals, processing of coal products and purchasing of coal mine machinery and equipment.

Mr. WU Wenyu, aged 52, is the Director and Chief Engineer of the Huanghuashan Coal Mine. He is a graduate of the Fuxin Mining College of Liaoning Province and has over 20 years of experience in coal mine design and operation. He has worked as the Deputy Director of the Coal Mine Design Institute of the Jilin Province, the Director and Chief Engineer of the Jilin Hongyang Coal Mine and the Director of the Inner Mongolia Zhaluteqi Xingbei Coal Mine.

Mr. SONG Yuzhu, aged 48, is the Director and Chief Engineer of the Guerbanhada Coal Mine. He is a graduate of China College of Mining and Technology and has over 25 years of experience in coal mine design and operation. He has also worked as the Deputy Chief and Chief Engineer of an open-pit mine for the Huolinehe Coal Group in Inner Mongolia, the PRC.

Mr. HUANG Sheng Hai, aged 43, is the manager of the Group's production and material control department and is responsible for production and purchasing management. Mr. Huang holds a bachelor degree in medical science from the Medical School of Fujian Province, the PRC and has over 15 years of experience in the field of production and purchasing management.

Madam TI Yuk Fun, Joanne, aged 42, is the marketing officer of the Group and is responsible for sales and marketing. Madam Ti holds a bachelor degree in commerce from University of Windsor of Canada and has over 10 years of experience in the field of sales and marketing.

Madam LI Yim Hung, aged 40, is the officer of the product design and development department of the Group and is responsible for product design and development. She has over 15 years of experience in the field of product design and development.

Report of the Directors

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

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 32 to the financial statements. During the year, the Group has completed the acquisition of Tongliao City Heng Yuan Mining Co., Ltd. ("Heng Yuan"), which is in line with the Group's strategy to strengthen its coal mining business.

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 2008 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 to 31.

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

Report of the Directors

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**133,357**	111,189	96,578	67,528	80,674
(Loss)/Profit before taxation	**(165,555)**	(7,012)	2,577	(364)	(12,732)
Income tax credit/(expense)	**7,375**	(1,408)	(1,437)	323	790
(Loss)/Profit for the year	**(158,180)**	(8,420)	1,140	(41)	(11,942)
Attributable to:					
Equity holders of the Company	**(158,549)**	(8,216)	1,103	(41)	(11,888)
Minority interests	**369**	(204)	37	–	(54)
	(158,180)	(8,420)	1,140	(41)	(11,942)

ASSETS AND LIABILITIES

	31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**876,764**	514,976	199,796	153,606	166,249
Total liabilities	**(423,931)**	(65,881)	(51,482)	(53,441)	(69,084)
	452,833	449,095	148,314	100,165	97,165
Equity attributable to equity holders of the Company	**450,882**	447,513	147,017	100,165	97,165
Minority interests	**1,951**	1,582	1,297	–	–
	452,833	449,095	148,314	100,165	97,165

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2007 and 2008 are set out on page 29 of this annual report.

(2) The consolidated balance sheets as at 31 December 2007 and 31 December 2008 are as set out on page 30 of the annual report.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 12 and 14 to the financial statements, respectively. Details of the Group's investment property is set out in note 14 to the financial statement.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2008 are set out in note 26 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year and subsequent thereto, are set out in notes 30 and 31 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 33 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company had distributable reserves of approximately HK$734,266,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the capital reserve and share premium of the Company of HK$125,161,000 and HK$462,126,000, respectively, at 31 December 2008 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK$213,000.

RETIREMENT BENEFITS SCHEMES

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

The total cost charged to the consolidated income statement of HK$1,328,000 (2007: HK$1,113,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2008 and 2007, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2007: Nil) was available at 31 December 2008 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 2008 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 53% of the total sales for the year and sales to the largest customer included therein accounted for approximately 32%. Purchases from the Group's five largest suppliers accounted for approximately 37% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 10%.

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.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Hui Kee Fung ***(Chairman)***
Mr. Hui Ki Yau ***(Chief Executive Officer)***
Ms. Hui Hung Tan, Teresa

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

In accordance with article 87 of the Company's articles of association, Mr. Hui Ki Yau and Mr. Kung King Ching, Conrad, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity	Number of Shares	Approximate shareholding
Hui Kee Fung	Interest of a controlled corporation (note)	1,567,500,000 (L)	38.09%
Hui Ki Yau	Interest of a controlled corporation (note)	1,567,500,000 (L)	38.09%
Hui Hung Tan, Teresa	Not applicable	–	–

L: Long Position

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

Save as disclosed above, as at the 31 December 2008, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange to be notified to the Company and the Stock Exchange.

Report of the Directors

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.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

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

	Number of share options				
Grantee	**Outstanding at 1 January 2008**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31 December 2008**	**Exercise price**
Employees	63,608,800	–	(2,169,200)	61,439,600	HK$0.1016
	3,300,000	–	–	3,300,000	HK$0.7400
	66,908,800	–	(2,169,200)	64,739,600	
Consultant	1,200,000	–	–	1,200,000	HK$0.1016
	68,108,800	**–**	**(2,169,200)**	**65,939,600**	

Further details of the exercisable periods of the share options are disclosed in note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the latest practicable date, prior to the printing of this annual report, 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 shares**	**Beneficial owner**	**Interest of controlled corporation**	**Interest of child under 18 or spouse**	**Approximate shareholding**
Legend Win Profits Limited *(Note 1)*	1,567,500,000(L)	1,567,500,000	–	–	38.09%
Yu Won Kong, Dennis *(Note 2)*	842,449,764(L)	465,000,000	362,949,764	14,500,000	20.47%
Ho Siu Lan, Sandy *(Note 3)*	842,449,764(L)	14,500,000	–	827,949,764	20.47%
Kau Man Wai, Leslie *(Note 2)*	624,819,764(L)	261,870,000	362,949,764	–	15.18%
Gold Dynasty Investments Limited *(Note 4)*	362,949,764(L)	362,949,764	–	–	8.82%
Top Advance Group Limited *(Notes 2 & 4)*	362,949,764(L)	–	362,949,764	–	8.82%
Chung Chi Shing *(Note 4)*	544,269,764(L)	181,320,000	362,949,764	–	13.22%

L: Long Position

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

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

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

3. Ho Siu Lan, Sandy is the spouse of Yu Wong Kong, Dennis.

4. 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.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the connected and related party transactions of the Group during the year are set out in note 37 to the financial statements. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

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

The Company has received a letter from the auditor reporting that, based on the information and documents made available to them, the sales of goods from a Company's subsidiary to Marketing Resource Group, Inc. ("MRG"), a jointly-controlled entity of the Group, during the year as disclosed in note 37 of the consolidated financial statements, (i) have been approved by the Board of Directors of the Company on 29 October 2007; (ii) were in accordance with the pricing policies of the Group agreed with MRG; (iii) have been entered into in accordance with the relevant agreements except that MRG settled the trade amount with the Group later than the credit period of 45 days; and (iv) the total value of the sales transactions amount receivable by the Group from MRG did not exceed HK$35 million for the year ended 31 December 2008.

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.

Report of the Directors

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 23 to 26.

INDEPENDENT CONFIRMATION

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

AUDITOR

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

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

ON BEHALF OF THE BOARD

HUI Kee Fung
Chairman

Hong Kong
27 April 2009

Corporate Governance Report

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2008, the Company has substantially complied with the provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

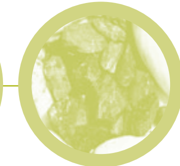
The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2008.

BOARD OF DIRECTORS

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

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





Corporate Governance Report

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Seven Board meetings were held in 2008. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2008 is set out below:

		Attendance/Number of Meetings		
Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive Director				
Mr. Hui Kee Fung *(Chairman)*	7/7	N/A	1/1	1/1
Mr. Hui Ki Yau *(Chief Executive Officer)*	7/7	N/A	N/A	N/A
Madam Hui Hung Tan, Teresa	7/7	N/A	N/A	N/A
Independent Non-Executive Director				
Mr. Peng Guanghui	7/7	3/3	1/1	1/1
Mr. Kung King Ching, Conrad	7/7	3/3	1/1	1/1
Mr. Tang Rongzu	7/7	3/3	1/1	1/1

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

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on page 11.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Hui Ki Yau as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on page 11.

Corporate Governance Report

REMUNERATION COMMITTEE

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

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2008. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

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

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

NOMINATION COMMITTEE

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

One meeting was held by the Nomination Committee in 2008. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

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

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2008. All committee members are independent non-executive directors. Its current members include:

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

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

INTERNAL CONTROLS

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

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

AUDITORS' REMUNERATION

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

FINANCIAL REPORTING

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

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 27.

Independent Auditor's Report

RSM! Nelson Wheeler

中瑞岳華(香港)會計師事務所

Certified Public Accountants

TO THE SHAREHOLDERS OF

KIU HUNG ENERGY HOLDINGS LIMITED

(FORMERLY KNOWN AS KIU HUNG INTERNATIONAL HOLDINGS LIMITED)

(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Kiu Hung Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 102, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

Basis for disclaimer of opinion

(a) As set out in note 2 to the consolidated financial statements, the Group incurred a loss of approximately HK$158,549,000 attributable to equity holders of the Company and as at 31 December 2008 the Group had net current liabilities of approximately HK$77,454,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's attainment of profitable and positive cash flow operations and the Group's successful fund raising activities to obtain necessary funds at a level sufficient to finance the working capital requirements of the Group. We have not been provided with sufficient evidence to satisfy ourselves that the Group might successfully adopt the going concern basis.

Basis for disclaimer of opinion *(Continued)*

Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

(b) Included in the consolidated balance sheet is goodwill with carrying amount of approximately HK$658,405,000 as at 31 December 2008. The goodwill is attributable to the exploration and evaluation of Guerbanhada Coal Mine ("GCM") and Bayanhushuo Coalfield ("BCF"), located in the Inner Mongolia Autonomous Region of the People's Republic of China.

As set out in note 15 to the consolidated financial statements, the directors assessed the carrying amount of goodwill based on the recoverable amounts of GCM and BCF which are estimated at fair value less cost to sell by reference to the market value as at 31 December 2008. Impairment loss of approximately HK$256,349,000 was provided for the carrying amount of goodwill as at 31 December 2008. We have not been provided with sufficient evidence regarding the value in use of the goodwill and accordingly we have been unable to satisfy ourselves as to the recoverable amount of the goodwill. There are no other satisfactory audit procedures that we could adopt to determine whether the carrying amount of goodwill of approximately HK$658,405,000 was fairly stated as at 31 December 2008.

(c) Included in property, plant and equipment as set out in note 12 to the consolidated financial statements are other mining assets with carrying amounts of approximately HK$21,834,000 as at 31 December 2008 which are attributable to Huanghuashan Coal Mine located in the Inner Mongolia Autonomous Region. We have not been provided with sufficient evidence to satisfy ourselves as to the recoverability of these mining assets. There are no other satisfactory audit procedures that we could adopt to determine whether any provision for impairment should be made in the financial statements.

Any adjustments to the above figures might have a significant consequential effect on the Group's results for the year ended 31 December 2008 and net assets of the Group as at 31 December 2008.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the affairs of the Group as at 31 December 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

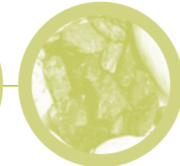
Hong Kong
27 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 *HK$'000*	2007 *HK$'000*
Turnover	*6*	**133,357**	111,189
Cost of sales		**(91,760)**	(78,391)
Gross profit		**41,597**	32,798
Other income	*6*	**155,514**	8,070
Selling and distribution costs		**(18,000)**	(12,237)
Administrative expenses		**(31,361)**	(30,220)
Other operating expenses		**(295,049)**	(1,551)
Loss from operations		**(147,299)**	(3,140)
Finance costs	*7*	**(18,705)**	(3,773)
Share of profit/(loss) of a jointly-controlled entity	*19*	**449**	(99)
Loss before tax		**(165,555)**	(7,012)
Income tax credit/(expense)	*8*	**7,375**	(1,408)
Loss for the year	*9*	**(158,180)**	(8,420)
Attributable to:			
Equity holders of the Company		**(158,549)**	(8,216)
Minority interests		**369**	(204)
		(158,180)	(8,420)
		HK cents	*HK cent*
Loss per share	*10*		
Basic		**(4.09)**	(0.26)
Diluted		**(7.07)**	N/A





Consolidated Balance Sheet

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**63,768**	57,990
Prepaid land lease payments	*13*	**4,742**	6,299
Investment properties	*14*	**3,440**	400
Goodwill	*15*	**658,405**	303,590
Exploration and evaluation assets	*16*	**53,484**	38,346
Mining rights	*17*	**–**	–
Other intangible assets	*18*	**1,129**	1,789
Interest in a jointly-controlled entity	*19*	**1,743**	524
Deposit	*20*	**–**	3,000
		786,711	411,938
Current assets			
Inventories	*21*	**9,329**	9,860
Trade receivables	*22*	**5,014**	9,108
Prepayments, deposits and other receivables		**2,833**	9,548
Due from a jointly-controlled entity	*19(a)*	**3,256**	3,443
Prepaid land lease payments	*13*	**98**	151
Current tax assets		**218**	85
Financial assets at fair value through profit or loss	*23*	**286**	286
Bank and cash balances	*5(a)*	**69,019**	70,557
		90,053	103,038
Current liabilities			
Trade and bills payables	*24*	**10,165**	9,256
Accruals and other payables		**21,585**	17,864
Due to a shareholder	*25*	**211**	282
Current tax liabilities		**398**	1,051
Borrowings	*26*	**38,673**	31,981
Derivative financial instruments	*27*	**1,059**	–
Promissory notes	*28*	**95,416**	–
		167,507	60,434
Net current (liabilities)/assets		**(77,454)**	42,604
Total assets less current liabilities		**709,257**	454,542

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Borrowings	26	**18,376**	1,284
Deferred tax liabilities	29	**3,920**	4,163
Convertible notes	27	**234,128**	–
		256,424	5,447
Net assets		**452,833**	449,095
Capital and reserves			
Share capital	30	**82,315**	68,132
Reserves		**368,567**	379,381
Total equity attributable to equity holders of the Company		**450,882**	447,513
Minority interests		**1,951**	1,582
Total equity		**452,833**	449,095

Hui Ki Yau
Director

Hui Hung Tan, Teresa
Director

Consolidated Statement of Changes In Equity

For the year ended 31 December 2008

	Share Capital	Share premium	Statutory reserve	Contributed surplus	Foreign currency translation reserve	Share-based payment reserve	Property revaluation reserve	Retained Profits/ (Accumulated losses)	Proposed final dividend	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 30)	*(note (a))*	*(note (b))*	*(note (c))*	*(note (d))*	*note (e))*	*note (f))*					
At 1 January 2008	68,132	319,794	1,495	313	5,474	4,264	14,155	33,886	–	447,513	1,582	449,095
Deficit on revaluation	–	–	–	–	–	–	(297)	–	–	(297)	–	(297)
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	–	(95)	–	–	(95)	–	(95)
Translation adjustments	–	–	–	–	8,792	–	–	–	–	8,792	–	8,792
Net income recognised directly in equity	–	–	–	–	8,792	–	(392)	–	–	8,400	–	8,400
Loss for the year	–	–	–	–	–	–	–	(158,549)	–	(158,549)	369	(158,180)
Total recognised income and expense for the year	–	–	–	–	8,792	–	(392)	(158,549)	–	(150,149)	369	(149,780)
Issue of consideration shares *(note 30)*	12,000	115,996	–	–	–	–	–	–	–	127,996	–	127,996
Issue of shares upon exercise of share options *(note 30)*	43	331	–	–	–	(154)	–	–	–	220	–	220
Issue of shares on placement *(note 30)*	2,140	26,005	–	–	–	–	–	–	–	28,145	–	28,145
Recognition of share-based payment *(note 31)*	–	–	–	–	–	1,152	–	–	–	1,152	–	1,152
Release on disposal of subsidiaries *(note 33(b))*	–	–	–	(10)	(3,995)	–	(8,622)	8,632	–	(3,995)	–	(3,995)
Transfer to reserve	–	–	150	–	–	–	–	(150)	–	–	–	–
At 31 December 2008	**82,315**	**462,126**	**1,645**	**303**	**10,271**	**5,262**	**5,141**	**(116,181)**	**–**	**450,882**	**1,951**	**452,833**

Consolidated Statement of Changes In Equity

For the year ended 31 December 2008

	Share Capital	Share premium	Statutory reserve	Contributed surplus	Foreign currency translation reserve	Share-based payment reserve	Property revaluation reserve	Retained Profits/ (Accumulated losses)	Proposed final dividend	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 30)	*(note (a))*	*(note (b))*	*(note (c))*	*(note (d))*	*(note (e))*	*(note (f))*					
At 1 January 2007	59,773	23,406	1,495	313	1,278	4,819	13,537	42,097	299	147,017	1,297	148,314
Surplus on revaluation	–	–	–	–	–	–	991	–	–	991	–	991
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	–	(373)	–	–	(373)	–	(373)
Translation adjustments	–	–	–	–	4,196	–	–	–	–	4,196	–	4,196
Net income recognised directly in equity	–	–	–	–	4,196	–	618	–	–	4,814	–	4,814
Loss for the year	–	–	–	–	–	–	–	(8,216)	–	(8,216)	(204)	(8,420)
Total recognised income and expense for the year	–	–	–	–	4,196	–	618	(8,216)	–	(3,402)	(204)	(3,606)
Acquisition of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	2,145	2,145
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,656)	(1,656)
Issue of consideration shares *(note 30)*	7,240	287,845	–	–	–	–	–	–	–	295,085	–	295,085
Issue of shares upon exercise of share options *(note 30)*	1,119	8,543	–	–	–	(3,979)	–	–	–	5,683	–	5,683
Recognition of share-based payment *(note 31)*	–	–	–	–	–	3,429	–	–	–	3,429	–	3,429
Payment of final dividend	–	–	–	–	–	–	–	–	(299)	(299)	–	(299)
Release on forfeiture of share options *(note 31)*	–	–	–	–	–	(5)	–	5	–	–	–	–
At 31 December 2007	68,132	319,794	1,495	313	5,474	4,264	14,155	33,886	–	447,513	1,582	449,095

Consolidated Statement of Changes In Equity

For the year ended 31 December 2008

Note:

(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(d)(iii) to the financial statements.

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

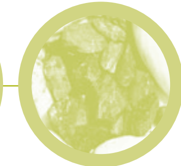
(f) The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 3(e) to the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(165,555)**	(7,012)
Adjustments for:			
Allowance for inventories		**3,022**	1,662
Amortisation of other intangible assets		**660**	635
Amortisation of prepaid land lease payments		**151**	159
Bad debts written off		**847**	146
Depreciation		**5,977**	6,478
Share-based payments expenses		**1,152**	3,429
Fair value gain on investment properties		**(334)**	–
Fair value gain on derivative component of convertible notes		**(146,040)**	–
Gain on disposal of subsidiaries	33(b)	**(7,018)**	(1,322)
Interest expenses		**18,705**	3,773
Interest income		**(540)**	(824)
Impairment loss on goodwill		**256,349**	–
Impairment loss on mining rights		**35,493**	–
Loss on disposals of property, plant and equipment		**87**	7
Reversal of revaluation deficit on leasehold land and buildings previously charged to income statement		**–**	(661)
Share of (profit)/loss of a jointly-controlled entity		**(449)**	99
Operating profit before working capital changes		**2,507**	6,569
Increase in inventories		**(2,491)**	(1,295)
Decrease/(increase) in trade receivables		**3,247**	(149)
Decrease/(increase) in prepayments, deposits and other receivables		**6,833**	(954)
Decrease/(increase) in amount due from a jointly-controlled entity		**187**	(2,346)
Increase in trade and bills payables		**909**	1,624
Increase/(decrease) in trust receipt loans		**490**	(1,544)
Decrease in amount due to a shareholder		**(71)**	–
Increase/(decrease) in accruals and other payables		**1,337**	(1,715)
Cash generated from operations		**12,948**	190
Interest paid		**(7,228)**	(2,369)
Income taxes (paid)/refunded		**(1,640)**	62
Dividend paid		**–**	(299)
Net cash generated from/(used in) operating activities		**4,080**	(2,416)





Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	**2008** **HK$'000**	2007 *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of subsidiaries	*33(a)*	**(3,393)**	(426)
Additional capital contribution to a jointly-controlled entity		**(770)**	–
Decrease in amount due from a related company		**–**	2,900
Increase in deposits		**–**	(3,000)
Interest received		**540**	824
Proceeds from disposals of property, plant and equipment		**–**	7
Proceeds from disposals of subsidiaries	*33(b)*	**1,985**	997
Purchases of property, plant and equipment		**(2,127)**	(3,217)
Repayment from a shareholder of an ex-subsidiary		**5,681**	–
Repayment to an ex-shareholder of a subsidiary		**(62,543)**	–
Net cash used in investing activities		**(60,627)**	(1,915)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank and other loans raised		**43,135**	14,422
Proceeds from issue of shares on exercise of share options		**220**	5,683
Proceeds from issue of shares on placement		**28,890**	–
Expenses on placement		**(745)**	–
Repayment of bank and other loans		**(20,034)**	(29,441)
Repayment of finance lease payables		**–**	(48)
Net cash generated from/(used in) financing activities		**51,466**	(9,384)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,081)**	(13,715)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**70,557**	85,224
Effect of foreign exchange rate changes		**3,543**	(952)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**69,019**	70,557
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
Bank and cash balances		**69,019**	70,557

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fotan, Shatin, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 32 to the financial statements.

2. GOING CONCERN BASIS

The Group incurred a loss of approximately HK$158,549,000 attributable to equity holders of the Company and as at 31 December 2008 the Group had net current liabilities of approximately HK$77,454,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's attainment of profitable and positive cash flow operations and the Group's successful fund raising activities to obtain necessary funds at a level sufficient to finance the working capital requirements of the Group. The directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

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

In the current year, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

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

(a) Consolidation

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related foreign currency translation reserve.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill

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

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

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to CGU for the purpose of impairment testing.

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

(c) Jointly-controlled entities

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

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

Investment in a jointly-controlled entity is accounted for in the consolidated financial statements by the equity method of accounting 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 within the carrying amount of the investment and is assessed for impairment as part of the investment. 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 the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Jointly-controlled entities *(Continued)*

The Group's share of a jointly-controlled entity's post-acquisition profits or losses is recognised in the consolidated income statement, 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.

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 net assets together with any goodwill relating to the jointly-controlled entity which was not previously charged or recognised in the consolidated income statement and also any related foreign currency translation reserve.

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

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

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

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

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

(e) Property, plant and equipment

Land and buildings comprise mainly factories and offices. Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Revaluation increases of land and buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the property revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against property revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained profits.

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

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

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

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 the income statement.

(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 the income statement for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investment properties *(Continued)*

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 the income statement.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting 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. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

(g) Exploration and evaluation assets

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

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

(h) Mining rights

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

(i) Trademarks and license rights

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement 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 balance sheet as finance lease payables. Lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

(k) Research and development 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of overheads 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 balance sheet 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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

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 the income statement.

(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 the income statement.

3. 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 the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement 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 cash flow statement, 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 liability 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Financial liability and equity instruments *(Continued)*

(i) Borrowings *(Continued)*

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

(ii) Convertible notes

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

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

(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 rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iv) Equity instruments

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

3. 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

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

(ii) Rental income

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

(iii) Interest income

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

(s) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

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

(u) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(v) Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Taxation *(Continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, trade receivables and bank and cash balances.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting *(Continued)*

Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(y) Impairment of assets

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

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

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 the income statement, 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 the income statement, 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) 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.

(aa) Events after the balance sheet date

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

(a) Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's attainment of profitable and positive cash flow operations and the Group's successful fund raising activities. Details are explained in note 2 to financial statements.

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

(b) Split of land and building elements

The Group determines that the lease payments cannot be allocated reliably between the land and building elements on certain leasehold land and buildings. Accordingly, leasehold of land and buildings with carrying amount of HK$12,355,000 (2007: HK$13,940,000) as at 31 December 2008 is classified as finance leases and included under property, plant and equipment.

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

(b) Income taxes

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

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

Key sources of estimation uncertainty *(Continued)*

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value less costs to sell of the CGU to which goodwill has been allocated. The fair values less costs to sell were developed through the application of a valuation method, where certain estimates were used. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. The carrying amount of goodwill at the balance sheet date was HK$658,405,000 after an impairment loss of HK$256,349,000 was recognised for the year ended 31 December 2008. Details of the impairment loss calculation are provided in note 15 to financial statements.

(d) Recoverability of goodwill and exploration and evaluation assets

The directors are satisfied with the recoverability of goodwill and exploration and evaluation assets with carrying value of HK$658,405,000 and HK$53,484,000, respectively, as at 31 December 2008 by reference to the market values of the relevant CGU. The market values of the relevant CGU are estimated on the assumption that there are willing buyers for those particular CGU of the Group. Where such willing buyers cannot be identified in the market, the carrying amounts of goodwill and exploration and evaluation assets may not be recovered in full.

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

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

(f) Net realisable value of inventories

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

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

Key sources of estimation uncertainty *(Continued)*

(g) Impairment loss for bad and doubtful debts

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

(h) Fair value of derivative component

As disclosed in note 27 to the financial statements, the fair values of the derivative component of the convertible notes at the date of issue and the balance sheet date were determined using the Black-Scholes option pricing model (the "Black-Scholes Model"). Application of the Black-Scholes Model requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative component in the period in which such determination is made.

(i) Share-based payment expenses

The fair value of the share options granted to the employees and consultant determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Black-Scholes 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.

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.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Foreign currency risk

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

Included in the bank and cash balances of the Group is an amount of approximately HK$65,234,000 as at 31 December 2008 (2007: HK$54,622,000) denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

(b) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles. The Group's overall exposure to price risk is not significant.

(c) Credit risk

The carrying amount of the trade and other receivables, cash and cash equivalents, and financial assets at fair value through profit or loss included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

At the balance sheet date, the Group has certain concentration of credit risk as 13% (2007: 22%) and 46% (2007: 64%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2008 respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

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

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

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

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

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

	Total contractual undiscounted cash flow	Less than 1 year or on demand	Between 1 and 5 years
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2008			
Trade and bills payables	10,165	10,165	–
Accruals and other payables	21,585	21,585	–
Due to a shareholder	211	211	–
Borrowings	64,484	41,924	22,560
Convertible notes	254,065	–	254,065
Promissory notes	95,416	95,416	–
At 31 December 2007			
Trade and bills payables	9,256	9,256	–
Accruals and other payables	17,864	17,864	–
Due to a shareholder	282	282	–
Borrowings	34,743	33,396	1,347

(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 certain cash through placing them into appropriate short term deposits with a mixture of variable and fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(f) Fair values

Except for the amount stated in note 27, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2008	2007
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**133,357**	111,189
Other income		
Fair value gain on derivative component of convertible notes *(note 27)*	**146,040**	–
Fair value gain on investment properties *(note 14)*	**334**	–
Gain on disposal of subsidiaries *(note 33(b))*	**7,018**	1,322
Interest income	**540**	824
Net foreign exchange gain	**–**	2,494
Rental income	**209**	421
Reversal of revaluation deficit previously charged to income statement	**–**	661
Sale of moulds	**235**	1,288
Others	**1,138**	1,060
	155,514	8,070

Segment information

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

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

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

Segment information *(Continued)*

(a) Primary reporting format – business segment

The Group has two main business segments:

(i) the manufacturing of toys and gifts items; and

(ii) the exploration and mining of natural resources.

(b) Secondary reporting format – geographic segment

No geographical segment is presented as over 90% of the Group's assets are located in the PRC. The Group's revenue is derived from location of customers.

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

Segment information *(Continued)*

(a) Business segments

	Exploration and mining		Toys and gifts items		Unallocated		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**–**	–	**133,357**	111,189	**–**	–	**133,357**	111,189
Other revenue	**–**	–	**235**	1,288	**–**	–	**235**	1,288
Total segment revenue	**–**	–	**133,592**	112,477	**–**	–	**133,592**	112,477
Segment results	**(164,886)**	(3,166)	**(1,089)**	(1,464)	**–**	–	**(165,975)**	(4,630)
Interest, rental income and unallocated other income							**9,239**	6,782
Unallocated expenses							**(5,152)**	(5,292)
Loss from operations							**(161,888)**	(3,140)
Finance costs							**(4,116)**	(3,773)
Share of profit/(loss) of a jointly-controlled entity			**449**	(99)			**449**	(99)
Loss before tax							**(165,555)**	(7,012)
Income tax credit/(expense)							**7,375**	(1,408)
Loss for the year							**(158,180)**	(8,420)
Segment assets	**735,465**	346,362	**126,530**	136,997	**13,026**	31,093	**875,021**	514,452
Interest in a jointly-controlled entity	**–**	–	**1,743**	524	**–**	–	**1,743**	524
Total assets							**876,764**	514,976
Segment liabilities	**372,804**	24,534	**20,076**	32,942	**31,051**	8,405	**423,931**	65,881
Total liabilities							**423,931**	65,881
Other information:								
Capital expenditure	**68,323**	37,869	**1,248**	2,202	**–**	–	**69,571**	40,071
Depreciation and amortisation	**212**	76	**6,284**	6,577	**292**	619	**6,788**	7,272
Impairment loss on goodwill	**256,349**	–	**–**	–	**–**	–	**256,349**	–
Impairment loss on mining rights	**35,493**	–	**–**	–	**–**	–	**35,493**	–
Bad debt written off	**–**	–	**847**	114	**–**	32	**847**	146

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

Segment information *(Continued)*

(b) Geographical segments

	PRC (including Hong Kong)		North America*		European Union**		Others***		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**9,565**	5,901	**104,538**	82,783	**11,764**	16,939	**7,490**	5,566	**133,357**	111,189
Other revenue	**235**	1,288	**–**	–	**–**	–	**–**	–	**235**	1,288
Total segment revenue	**9,800**	7,189	**104,538**	82,783	**11,764**	16,939	**7,490**	5,566	**133,592**	112,477

* North America includes the United States of America and Canada

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

*** Others includes Middle East, South America and Southeast Asia

7. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans	**2,314**	1,913
Trust receipt loans	**369**	325
Liability component of convertible notes wholly repayable within 5 years *(note 27)*	**11,477**	–
Loan from a shareholder wholly repayable within 5 years	**–**	44
Other loans wholly repayable within 5 years	**2,743**	1,491
Others	**1,802**	–
	18,705	3,773

8. INCOME TAX (CREDIT)/EXPENSE

(a)

	2008	2007
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax		
Provision for the year	**885**	896
Over-provision in prior years	**(17)**	–
	868	896
Deferred tax *(note 29)*	**(8,243)**	512
	(7,375)	1,408

Hong Kong Profits Tax is provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the respective jurisdictions in which the subsidiaries of the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	2008	2007
	HK$'000	*HK$'000*
Loss before tax	**(165,555)**	(7,012)
Tax at the applicable tax rate of 16.5% (2007: 17.5%)	**(27,317)**	(1,227)
Tax effect of income that is not taxable	**(33,933)**	(832)
Tax effect of expenses that are not deductible	**53,882**	2,990
Tax effect on of change in tax rate	**70**	–
Tax effect of timing difference not recognised	**37**	–
Tax effect of utilisation of tax losses not previously recognised	**(111)**	–
Tax effect of unused tax losses not recognised	**195**	2,255
Under/(over)-provision of taxation charges	**305**	(8)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(503)**	(1,770)
Income tax (credit)/expense	**(7,375)**	1,408

8. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

(c) The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law was effective from 1 January 2008.

9. LOSS FOR THE YEAR

The Group's loss for the year is stated at after charging the following:

	2008	2007
	HK$'000	*HK$'000*
Allowance for inventories	**3,022**	1,662
Amortisation of other intangible assets *(note (c))*	**660**	635
Auditor's remuneration	**750**	1,900
Bad debts written off	**847**	146
Cost of inventories sold *(note (a))*	**91,760**	78,391
Depreciation	**5,977**	6,478
Impairment loss on goodwill * *(note 15)*	**256,349**	–
Impairment loss on mining rights* *(note 17)*	**35,493**	–
Loss on disposals of property, plant and equipment *	**87**	7
Minimum lease payments under operating leases in respect of land and buildings	**573**	416
Net foreign exchange loss *	**2,342**	–
Research and development expenditure *(note (b))*	**713**	1,015
Staff costs (excluding directors' remuneration *(note 11)*)		
Salaries, bonus and allowance	**21,014**	16,182
Retirement benefits scheme contributions	**932**	750
Share-based payment expenses	**1,152**	3,361
	23,098	20,293

* *Included in other operating expenses*

9. LOSS FOR THE YEAR *(Continued)*

Note:

(a) Cost of inventories sold included approximately HK$11,459,000 (2007: HK$8,989,000), HK$4,503,000 (2007: HK$4,466,000) and HK$3,022,000 (2007: HK$1,662,000) relating to staff costs, depreciation and allowance for inventories respectively, which are included in the respective amounts disclosed separately above for each of these types of expenses for the year.

(b) Research and development expenditure includes approximately HK$540,000 (2007: HK$710,000) relating to staff costs which are also included in the respective amount disclosed separately above for the year.

(c) Included in the balance for the year ended 2007 is amortisation of trademark of HK$15,000 which was included in selling and distribution costs, the remaining balance related to amortisation of license rights which was included in other operating expenses. The amount for the year ended 2008 is included in selling and distribution costs.

10. LOSS PER SHARE

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

	2008	2007
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of calculating basic earnings per share	**158,549**	8,216
Finance costs saving on conversion of convertible notes outstanding	**(11,477)**	–
Fair value gain on derivative financial instruments of convertible notes	**146,040**	–
Loss for the purpose of calculating diluted loss per share	**293,112**	8,216
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**3,872,395,894**	3,190,638,419
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	**275,683,154**	–
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**4,148,079,048**	3,190,638,419

10. LOSS PER SHARE *(Continued)*

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

Diluted loss per share was not presented for the year ended 31 December 2007 as there was anti-dilutive effect in relation to the outstanding share options.

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 2008

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

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

(a) Directors' remuneration *(Continued)*

For the year ended 31 December 2007

Name of director	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Hui Kee Fung	–	1,584	158	1,742
Mr. Hui Ki Yau	–	1,380	138	1,518
Ms. Hui Hung Tan, Teresa	–	672	67	739
Independent non-executive directors				
Mr. Peng Guanghui	50	–	–	50
Mr. Kung King Ching, Conrad	50	–	–	50
Mr. Tang Rongzu	50	–	–	50
	150	3,636	363	4,149

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2007: 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 three (2007: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2007: two) highest paid individuals are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,522**	1,135
Share-based payment expenses	**–**	319
Retirement benefits scheme contributions	**102**	86
	1,624	1,540

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 (2007: HK$Nil).

The number of highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2008	2007
HK$Nil – HK$1,000,000	**2**	2

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Buildings	Mining structure	Leasehold improvements	Plant and machinery	Moulds	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation									
At 1 January 2007	19,900	25,210	–	2,094	10,599	26,822	4,272	3,252	92,149
Additions	–	698	–	–	513	698	319	989	3,217
Acquisition of subsidiaries *(note 33(a)(ii))*	–	–	–	–	–	–	28	–	28
Exchange difference	155	1,609	–	–	415	968	95	130	3,372
Disposals	–	–	–	–	–	–	(35)	–	(35)
Disposal of subsidiaries *(note 33(b)(iii))*	(6,650)	–	–	–	–	–	–	–	(6,650)
Adjustment on property revaluation to equity	360	(977)	–	–	–	–	–	–	(617)
Adjustment on property revaluation to income statement	175	–	–	–	–	–	–	–	175
At 31 December 2007 and 1 January 2008	13,940	26,540	–	2,094	11,527	28,488	4,679	4,371	91,639
Additions	128	–	–	–	1,089	426	143	341	2,127
Acquisition of subsidiaries *(note 33(a)(i))*	1,747	–	16,860	–	1,706	–	21	160	20,494
Transfer to investment properties *(note 14)*	(2,530)	–	–	–	–	–	–	–	(2,530)
Exchange difference	40	1,807	383	–	518	1,399	92	188	4,427
Disposals	–	–	–	–	(192)	–	(182)	–	(374)
Disposal of subsidiaries *(note 33(b)(i))*	–	(11,424)	–	–	–	–	–	–	(11,424)
Adjustment on revaluation to equity	(970)	(403)	–	–	–	–	–	–	(1,373)
At 31 December 2008	12,355	16,520	17,243	2,094	14,648	30,313	4,753	5,060	102,986

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

	Leasehold land and buildings	Buildings	Mining structure	Leasehold improvements	Plant and machinery	Moulds	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and impairment									
At 1 January 2007	–	–	–	1,888	7,690	12,387	3,437	2,870	28,272
Charge for the year	771	1,323	–	57	464	3,366	294	203	6,478
Exchange difference	–	–	–	–	335	546	41	92	1,014
Disposals	–	–	–	–	–	–	(21)	–	(21)
Adjustment on property revaluation to equity	(285)	(1,323)	–	–	–	–	–	–	(1,608)
Adjustment on property revaluation to income statement	(486)	–	–	–	–	–	–	–	(486)
At 31 December 2007 and 1 January 2008	–	–	–	1,945	8,489	16,299	3,751	3,165	33,649
Charge for the year	292	1,232	–	45	425	3,412	255	316	5,977
Exchange difference	–	–	–	–	378	850	64	111	1,403
Disposals	–	–	–	–	(145)	–	(142)	–	(287)
Disposal of subsidiaries *(note 33(b)(i))*	–	(448)	–	–	–	–	–	–	(448)
Adjustment on revaluation to equity	(292)	(784)	–	–	–	–	–	–	(1,076)
At 31 December 2008	–	–	–	1,990	9,147	20,561	3,928	3,592	39,218
Carrying amount									
At 31 December 2008	12,355	16,520	17,243	104	5,501	9,752	825	1,468	63,768
At 31 December 2007	13,940	26,540	–	149	3,038	12,189	928	1,206	57,990

The analysis of the cost/valuation at 31 December 2008 of the above assets is as follows:

At cost	–	–	17,243	2,094	14,648	30,313	4,753	5,060	74,111
At valuation	12,355	16,520	–	–	–	–	–	–	28,875
	12,355	16,520	17,243	2,094	14,648	30,313	4,753	5,060	102,986

The analysis of the cost/valuation at 31 December 2007 of the above assets is as follows:

At cost	–	–	–	2,094	11,527	28,488	4,679	4,371	51,159
At valuation	13,940	26,540	–	–	–	–	–	–	40,480
	13,940	26,540	–	2,094	11,527	28,488	4,679	4,371	91,639

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

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

	2008	2007
	HK$'000	*HK$'000*
Held under medium term leases in Hong Kong *(note (a))*	**10,440**	11,410
Held under medium term leases in the PRC *(note (b))*	**18,435**	29,070
	28,875	40,480

Note:

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

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

Had the Group's leasehold land and buildings, and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 31 December 2008 would have been HK$21,115,000 (2007: HK$29,377,000).

At 31 December 2008, the Group's leasehold land and buildings, and buildings with an aggregate carrying amount of HK$9,300,000 (2007: HK$16,280,000) were pledged to secure banking facilities granted to the Group (note 26(a)).

The total carrying values of property, plant and equipment related to mining operation of Huanghaushan Coal Mine as explained in note 15 amounted to HK$21,834,000 (2007: HK$Nil) which included leasehold land and buildings, mining structure, plant and machinery, furniture, fixtures and equipment and motor vehicles.

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13. PREPAID LAND LEASE PAYMENTS

	HK$'000
Cost	
At 1 January 2007	7,839
Exchange difference	500
At 31 December 2007 and 1 January 2008	8,339
Disposal of subsidiaries *(note 33(b)(i))*	(3,573)
Exchange difference	568
At 31 December 2008	5,334
Accumulated amortisation	
At 1 January 2007	1,626
Charge for the year	159
Exchange difference	104
At 31 December 2007 and 1 January 2008	1,889
Charge for the year	151
Disposal of subsidiaries *(note 33(b)(i))*	(1,676)
Exchange difference	130
At 31 December 2008	494
Carrying amount	
At 31 December 2008	4,840
At 31 December 2007	6,450

	2008	2007
	HK$'000	*HK$'000*
Analysed for reporting purposes:		
Non-current assets	**4,742**	6,299
Current assets	**98**	151
	4,840	6,450

13. PREPAID LAND LEASE PAYMENTS *(Continued)*

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

	2008	2007
	HK$'000	*HK$'000*
Held under medium-term leases in the PRC	**4,840**	6,450

At 31 December 2008, the Group's prepaid land lease payments with an aggregate carrying amount of HK$Nil (2007: HK$1,826,000) were pledged to secure banking facilities granted to the Group (note 26(a)).

14. INVESTMENT PROPERTIES

	2008	2007
	HK$'000	*HK$'000*
At 1 January	**400**	400
Exchange difference	**176**	–
Transfer from property, plant and equipment *(note 12)*	**2,530**	–
Fair value gain	**334**	–
At 31 December	**3,440**	400

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

The Group's investment properties are analysed as follows:

	2008	2007
	HK$'000	*HK$'000*
Held under medium-term lease in Hong Kong	**400**	400
Held under medium-term lease in the PRC	**3,040**	–
	3,440	440

15. GOODWILL

	HK$'000
Cost	
At 1 January 2007	–
Acquisition of subsidiaries *(note 33(a)(ii))*	303,590
At 31 December 2007 and 1 January 2008	303,590
Acquisition of subsidiaries *(note 33(a)(i))*	611,164
At 31 December 2008	914,754
Accumulated amortisation and impairment losses	
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Impairment loss	256,349
At 31 December 2008	256,349
Carrying amount	
At 31 December 2008	658,405
At 31 December 2007	303,590

Goodwill is allocated, at acquisition, to the CGU that are expected to benefit from that business combination. The carrying amount of goodwill at year end have been allocated as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Exploration and mining		
– Guerbanhada Coal Mine	**189,169**	303,590
– Bayanhushuo Coal Field	**469,236**	–
	658,405	303,590

15. GOODWILL *(Continued)*

During the year ended 31 December 2007, the Group acquired Inner Mongolia Mingrunfeng Energy Co. Limited ("Mingrunfeng") which holds an exploration rights certificate in Guerbanhada Coal Mine ("GCM") located in the Inner Mongolia Autonomous Region of the PRC. The exploration rights certificate has a exploration period from 26 October 2007 to 31 October 2009.

During the year ended 31 December 2008, the Group acquired Lucky Dragon Resources Limited and its subsidiary, Tongliao City Heng Yuan Mining Co., Limited ("Heng Yuan") (collectively referred to as the "Lucky Dragon Group"). Heng Yuan holds an exploration rights certificate in Bayanhushuo Coal Field ("BCF") located in the Inner Mongolia Autonomous Region. The exploration rights certificate has a exploration period from 5 July 2007 to 4 July 2010 (latest renewed period is from August 2008 to August 2011). Heng Yuan also holds a mining rights certificate of Huanghaushan Coal Mine ("HCM") located in the Inner Mongolia Autonomous Region. The mining rights certificate has a mining period from November 2007 to November 2010 (latest renewed period is from August 2008 to August 2011).

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

The carrying amounts of the goodwill arising from the acquisition of Lucky Dragon Group and Mingrunfeng together with the carrying amounts of exploration and evaluation assets (note 16) are allocated to exploration and mining CGU which are directly attributable to the potential mining rights of GCM and BCF respectively. The directors considered that the goodwill arising from acquisition of HCM was immaterial since the potential mining values (in terms of coal reserve) of HCM is substantially less than that of BCF.

The directors assessed the carrying amounts of goodwill and exploration and evaluation assets based on the recoverable amounts of GCM and BCF which are estimated at fair value less cost to sell by reference to the market value as at 31 December 2008 issued by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professional valuers. The fair value less costs to sell were developed through the application of the market approach which relied on Guideline Transaction method with reference to the historical market transaction prices for acquisition of coal mine with similar exploration rights. The directors firstly allocated the impairment loss to goodwill and then to exploration and evaluation assets. Impairment loss of approximately HK$256,349,000 was provided for the carrying amount of goodwill as at 31 December 2008.

16. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2007	–
Acquisition of subsidiaries *(note 33 (a)(ii))*	36,826
Exchange difference	1,520
At 31 December 2007 and 1 January 2008	38,346
Acquisition of subsidiaries *(note 33 (a)(i))*	12,246
Exchange difference	2,892
At 31 December 2008	53,484
Accumulated amortisation and impairment loss	
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Impairment loss	–
At 31 December 2008	–
Carrying amount	
At 31 December 2008	53,484
At 31 December 2007	38,346

The exploration and evaluation assets are attributable to GCM and BCF as explained in note 15.

17. MINING RIGHTS

	HK$'000
Cost	
At 1 January 2008	–
Acquisition of subsidiaries *(note 33(a)(i))*	34,704
Exchange difference	789
At 31 December 2008	35,493
Accumulated amortisation and impairment loss	
At 1 January 2008	–
Impairment loss	35,493
At 31 December 2008	35,493
Carrying amount	
At 31 December 2008	–

The mining rights are attributable to the HCM. The directors considered that the discounted future cash flow derived from HCM is not significant to the Group, hence an impairment loss of HK$35,493,000 was provided as at 31 December 2008.

18. OTHER INTANGIBLE ASSETS

	Trademark *HK$'000* *(note a)*	License rights *HK$'000* *(note b)*	Total *HK$'000*
Cost			
At 1 January 2007 and 1 January 2008	1,155	1,459	2,614
Write off	–	(1,459)	(1,459)
At 31 December 2008	1,155	–	1,155
Accumulated amortisation			
At 1 January 2007	–	190	190
Amortisation for the year	15	620	635
At 31 December 2007	15	810	825
Amortisation for the year	11	649	660
Write off	–	(1,459)	(1,459)
At 31 December 2008	26	–	26
Carrying amount			
At 31 December 2008	1,129	–	1,129
At 31 December 2007	1,140	649	1,789

Note:

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

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

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2008	2007
	HK$'000	*HK$'000*
Share of net assets	**1,743**	524

Note:

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

(b) Details of the Group's jointly-controlled entity at 31 December 2008 and 2007 is as follows:

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

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

	2008	2007
	HK$'000	*HK$'000*
Share of the jointly-controlled entity's assets and liabilities:		
Assets		
Non-current assets	**487**	305
Current assets	**4,262**	2,468
	4,749	2,773
Liabilities		
Current liabilities	**3,006**	2,249
Net assets	**1,743**	524
Share of the jointly-controlled entity's results:		
Income	**14,432**	15,150
Expenses	**(13,983)**	(15,249)
Profit/(loss) after income tax	**449**	(99)

20. DEPOSIT

	2008 HK$'000	2007 HK$'000
Deposit paid for acquisition of subsidiaries *(note 33 (a)(i))*	–	3,000

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	13,889	12,354
Work in progress	3,473	4,068
Finished goods	4,223	2,672
	21,585	19,094
Less: Allowance of inventories	(12,256)	(9,234)
	9,329	9,860

22. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the balance sheet date, based on invoice dates, is as follows:

	2008 HK$'000	2007 HK$'000
Within 30 days	4,280	6,408
31 days to 90 days	552	2,254
91 days to 180 days	130	309
181 days to 360 days	52	137
	5,014	9,108

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period can be extended up to 90 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

22. TRADE RECEIVABLES *(Continued)*

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

	2008	2007
	HK$'000	*HK$'000*
HK$	**66**	–
US$	**4,362**	8,474
RMB	**586**	634
	5,014	9,108

At 31 December 2008, trade receivables of approximately HK$678,000 (2007: HK$5,566,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables, based on the number of overdue date, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 90 days	**632**	5,187
91 days to 180 days	**43**	242
180 to 365 days	**3**	137
	678	5,566

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
	HK$'000	*HK$'000*
Securities listed in Hong Kong, at fair value	**286**	286
Market value of securities	**286**	286

The financial assets are held for trading.

24. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the balance sheet date, based on invoice dates, is as follows:

	2008 HK$'000	2007 HK$'000
Within 30 days	**3,740**	3,582
31 days to 90 days	**2,751**	3,878
91 days to 180 days	**2,646**	1,315
181 days to 360 days	**733**	281
Over 360 days	**295**	200
	10,165	9,256

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

	2008 HK$'000	2007 HK$'000
HK$	**452**	970
US$	**2,054**	750
RMB	**7,659**	7,536
	10,165	9,256

25. DUE TO A SHAREHOLDER

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

26. BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Bank loans	**1,275**	14,742
Trust receipt loans	**2,524**	2,034
Other loans	**47,113**	16,489
Other loans (Non-interest bearing)	**6,137**	–
	57,049	33,265

	2008	2007
	HK$'000	*HK$'000*
Current		
Bank loans	**512**	13,458
Trust receipt loans	**2,524**	2,034
Other loans	**29,500**	16,489
Other loans (Non-interest-bearing)	**6,137**	–
	38,673	31,981
Non-current		
Bank loans	**763**	1,284
Other loans	**17,613**	–
	18,376	1,284
Total borrowings	**57,049**	33,265
Secured *(note (a)(i) and (a)(ii))*	**1,275**	14,742
Unsecured *(note (a)(ii), (a)(iii) and (a)(iv))*	**55,774**	18,523

26. BORROWINGS *(Continued)*

At 31 December 2008, the Group's borrowings were repayable as follows:

	Bank loans		Trust receipt loans		Other loans		(Non-interest bearing) Other loans		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**512**	13,458	**2,524**	2,034	**29,500**	16,489	**6,137**	–	**38,673**	31,981
In the second year	**534**	509	**–**	–	**17,613**	–	**–**	–	**18,147**	509
In the third to fifth years	**229**	775	**–**	–	**–**	–	**–**	–	**229**	775
Wholly repayable within 5 years	**1,275**	14,742	**2,524**	2,034	**47,113**	16,489	**6,137**	–	**57,049**	33,265

Note:

(a) **Facilities**

At 31 December 2008, the Group's borrowings were secured by:

(i) Charges over certain of the Group's leasehold land and buildings and prepaid land lease payments (notes 12 and 13);

(ii) Joint and several corporate guarantees provided by the Group's subsidiaries;

(iii) Corporate guarantees of the Company; and

(iv) Personal guarantee by the Company's director.

(b) The effective interest rates per annum at the balance sheet date were as follows:

	2008	2007
Bank loans		
– Floating rate (2008: HK$1,275,000; 2007: HK$1,764,000)	Prime rate minus 1%	Prime rate minus 1%
– Fixed rate (remaining)	N/A	From 8.892% to 9.211%
Trust receipt loans		
– Floating rate	Prime rate	Prime rate
Other loans		
– Fixed rate	From 11% to 19.2%	From 18% to 19.2%

26. BORROWINGS *(Continued)*

Note: (Continued)

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

	2008	2007
	HK$'000	*HK$'000*
HK$	**33,298**	3,797
RMB	**23,751**	29,468
	57,049	33,265

27. CONVERTIBLE NOTES

On 28 March 2008, the convertible notes ("CN") of nominal value of HK$254,065,000 were issued as part of the consideration for an acquisition of subsidiaries (note 33(a)(i)). Pursuant to the terms of the CN, the CN are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of the CN and 28 March 2010. Any CN not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

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

	Liability component	**Derivative component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 28 March 2008	222,651	147,099	369,750
Interest expense *(note 7)*	11,477	–	11,477
Fair value gain on derivative component of CN *(note 6)*	–	(146,040)	(146,040)
At 31 December 2008	234,128	1,059	235,187

The interest charged for the year is calculated by applying an effective interest rate of 6.822% to the liability component since the CN were issued.

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

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

27. CONVERTIBLE NOTES *(Continued)*

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

28. PROMISSORY NOTES

The promissory notes were issued as part of the consideration for an acquisition of subsidiaries (note 33(a)(i)). The promissory notes are unsecured, interest-fee and repayable on or before 28 September 2009 subject to the condition that the Company shall repay the promissory notes to note holder once the Company has sufficient funds for repayment.

29. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group.

	Accelerated tax depreciation HK$'000	Revaluation surplus on leasehold land and buildings HK$'000	Revaluation surplus on mining rights HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2007	1,055	2,774	–	(551)	3,278
Charge to equity	–	373	–	–	373
(Credit)/charge to income statement	(39)	–	–	551	512
At 31 December 2007	1,016	3,147	–	–	4,163
Acquisition of subsidiaries *(note 33(a)(i))*	–	–	8,060	–	8,060
Charge to equity	–	95	–	–	95
Credit to income statement	–	–	(8,243)	–	(8,243)
Disposal of subsidiaries *(note 33(b)(i))*	–	(461)	–	–	(461)
Exchange difference	–	123	183	–	306
At 31 December 2008	1,016	2,904	–	–	3,920

At 31 December 2008 the Group has unused tax losses of approximately HK$8,210,000 (2007: HK$3,509,000) available for offset against future profits of certain subsidiaries. No deferred tax asset has been recognised due to the unpredictability of future taxable profit streams of these subsidiaries.

30. SHARE CAPITAL

	Note	Number of shares 2008	Number of shares 2007	Ordinary share capital 2008 HK$'000	Ordinary share capital 2007 HK$'000
Authorised:					
Ordinary shares of HK$0.02 each		**10,000,000,000**	5,000,000,000	**200,000**	100,000
Issued and fully paid:					
At beginning of year		**3,406,590,600**	2,988,657,000	**68,132**	59,773
Issue of shares on					
– Acquisition of subsidiaries	*(note(a))*	**600,000,000**	362,000,000	**12,000**	7,240
– Exercise of share options	*(note(b))*	**2,169,200**	55,933,600	**43**	1,119
– On placement	*(note(c))*	**107,000,000**	–	**2,140**	–
At end of year		**4,115,759,800**	3,406,590,600	**82,315**	68,132

Note:

(a) The Company issued of 243,792,000 consideration shares on 29 May 2007 and 118,208,000 consideration shares on 2 October 2007 as part of consideration for acquisition of subsidiaries (note 33(a)(ii)). The fair value of such consideration shares were valued by RHL Appraisal Limited, an independent firm of professional valuers, at approximately HK$153,223,000 and HK$141,862,000 as at the date of issue and allotment of the shares on 29 May 2007 and 2 October 2007 respectively. The Company issued 600,000,000 consideration shares on 28 March 2008 as part of the consideration for acquisition of subsidiaries (note 33(a)(i)). The fair value of such consideration shares were valued by Grant Shermen, an independent firm of professional valuers, at HK$127,996,000 as at the date of issue and allotment of the shares on 28 March 2008.

(b) For the year ended 31 December 2008, the Company issued 2,169,200 (2007: 55,933,600) (note 31) 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 (2007: HK$0.1016). The difference between the issue price and par value totaling approximately HK$177,000 (2007: HK$4,564,000) was credited to share premium. In addition, the portion of share-based payment reserve in relation to the exercise of the share options exercised during the year of approximately HK$154,000 (2007: HK$3,979,000) was transferred to the Company's share premium account.

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

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

30. SHARE CAPITAL *(Continued)*

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

The Group managed the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debts. No changes had been made in the objectives, policies and processes during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is the Group's net debts (comprising borrowings, trade and bill payables, accruals and other payables, promissory notes, convertible notes less bank and cash balances) over its total equity. The Company's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2008 was 0.77 (2007: N/A).

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

31. 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.

31. SHARE-BASED PAYMENT *(Continued)*

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

The 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	Exercise price	Exercise period
2006(I) *(note (a))*	19 June 2006	53,120,000	HK$0.1016	1 January 2007 to 18 June 2016
2006(II) *(note (a))*	19 June 2006	67,840,000	HK$0.1016	1 January 2007 to 18 June 2016
2007 *(note (b))*	5 July 2007	3,300,000	HK$0.7400	1 July 2008 to 18 June 2016
		124,260,000		

Note:

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

Exercisable period	Maximum exercisable percentage 2006(I)	2006(II)
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

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For the year ended 31 December 2008

31. SHARE-BASED PAYMENT *(Continued)*

Note: (Continued)

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

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

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

For the year ended 31 December 2008

Grantee	Share option type	Outstanding at 1 January	Granted during the year	(note 30) Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Employees	2006(I)	12,010,000	–	(450,000)	–	11,560,000	11,560,000	HK$0.1016
	2006(II)	51,598,800	–	(1,719,200)	–	49,879,600	26,315,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	1,100,000	HK$0.74
		66,908,800	–	(2,169,200)	–	64,739,600	38,975,600	
Consultant	2006(I)	1,200,000	–	–	–	1,200,000	1,200,000	HK$0.1016
		68,108,800	–	(2,169,200)	–	65,939,600	40,175,600	
*Weighted average closing price		–	–	HK$0.9042	–	–	–	
Weighted average exercise price		HK$0.1325	–	HK$0.1016	–	HK$0.1335	HK$0.1191	

For the year ended 31 December 2007

Grantee	Share option type	Outstanding at 1 January	Granted during the year	(note 30) Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Employees	2006(I)	49,280,000	–	(37,270,000)	–	12,010,000	11,830,000	HK$0.1016
	2006(II)	67,840,000	–	(16,023,600)	(217,600)	51,598,800	4,470,000	HK$0.1016
	2007	–	3,300,000	–	–	3,300,000	–	HK$0.74
		117,120,000	3,300,000	(53,293,600)	(217,600)	66,908,800	16,300,000	
Consultant	2006(I)	3,840,000	–	(2,640,000)	–	1,200,000	1,200,000	HK$0.1016
		120,960,000	3,300,000	(55,933,600)	(217,600)	68,108,800	17,500,000	
*Weighted average closing price		–	–	HK$1.4372	–	–	–	
Weighted average exercise price		HK$0.1016	HK$0.74	HK$0.1016	HK$0.1016	HK$0.1325	HK$0.1016	

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

31. SHARE-BASED PAYMENT *(Continued)*

Note: (Continued)

(b) *(Continued)*

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

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

The Group recognized in total, HK$1,152,000 (2007: HK$3,429,000) share-based payment expenses in the income statement for the year ended 31 December 2008, of which HK$1,152,000 (2007: HK$3,361,000) and HK$Nil (2007: HK$68,000) has been included as staff costs and consultancy fee respectively, the corresponding amount has been credited to share-based payment reserve.

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32. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2008 are as follows:

Name	Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company	Principal activities
			(Directly)	
Legend Wealth Holdings Limited*	British Virgin Islands ("BVI")	50,500 ordinary share of US$1	100%	Investment holding
			(Indirectly)	
Newgary Development Limited	Hong Kong	2 ordinary share of HK$1 and 10,000 non-voting deferred share of HK$1	100%	Property holding
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary share of HK$1 and 10,000 non-voting deferred share of HK$1	100%	Investment holding
Better Sourcing Worldwide Limited	Hong Kong	100 ordinary share of HK$1	63%	Trading of gift items and toys
Toland International Limited	Hong Kong	4,200,000 ordinary share of HK$1	70%	Trading of flags and garden products
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary share of HK$1	100%	Trading of gift and toys
福建奇嘉禮品玩具有限公司* (Fujian Kcare Giftoys Co., Ltd.)	PRC	RMB 10,000,000	100%	Manufacture and trading of gifts and toys
福建嘉雄玩具有限公司* (Fujian Ka Hung Toys Co., Ltd.)	PRC	RMB10,000,000	100%	Manufacture and trading of gifts and toys

32. SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company	Principal activities
			(Indirectly)	
內蒙古銘潤峰能源有限公司* (Inner Mongolia Mingrunfeng Energy Co., Ltd.)	PRC	RMB20,000,000	100%	Exploration and mining
通遼市恒源礦業有限責任公司*# (Tongliao City Heng Yuan Mining Company Limited)	PRC	RMB12,673,123	100%	Exploration and mining
Top Point Investments Limited*	BVI	100 ordinary share of US$1	100%	Investment in securities
Bright Asset Investments Limited*	BVI	10,000 ordinary share of US$1	100%	Investment holding
Jumplex Investments Limited*	BVI	1 ordinary share of US$1	100%	Investment holding
First Choice Resources Limited*	BVI	1 ordinary share of US$1	100%	Investment holding
Wise House Limited*	BVI	36,000 ordinary share of US$1	100%	Investment holding
Growth Gain Investments Limited*	BVI	100 ordinary share of US$1	100%	Investment holding
Lucky Dragon Resources Limited*#	BVI	1 ordinary share of US$1	100%	Investment holding

The subsidiary was newly acquired by the Group for the year ended 31 December 2008.

* No audited financial statements were issued for the year ended 31 December 2008.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

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

The acquired business contributed turnover of HK$Nil and loss after tax of HK$6,123,000 to the Group for the period from 28 March 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's turnover would have been HK$133,357,000 and loss for the year would have been HK$158,495,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is intended to be a projection of future results.

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

(a) Acquisition of subsidiaries *(Continued)*

(i) *(Continued)*

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

	2008 ***HK$'000***
Net liabilities acquired:	
Property, Plant and equipment	**20,494**
Mining rights	**34,704**
Exploration and evaluation assets	**12,246**
Other receivables	**128**
Accruals and other payables	**(65,120)**
Deferred tax liabilities *(note 29)*	**(8,060)**
Due to a shareholder	**(49,073)**
Borrowings	**(6,001)**
Fair value of net liabilities acquired	**(60,682)**
Purchase consideration satisfied by:	
Cash paid in 2008	**3,393**
Deposit paid in 2007 *(note 20)*	**3,000**
Issue of consideration shares *(note 30(a))*	**127,996**
Issue of convertible notes *(note 27)*	**369,750**
Issue of promissory notes *(note 28)*	**95,416**
Total purchase consideration	**599,555**
Due to a shareholder assigned by Growth Gain	**(49,073)**
Net purchase consideration	**550,482**
Fair value of net liabilities acquired	**60,682**
Goodwill arising on acquisition *(note 15)*	**611,164**
Net cash outflow arising on acquisition	**(3,393)**

The goodwill is mainly attributable to the potential mining rights of BCF as explained in note 15.

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

(a) Acquisition of subsidiaries *(Continued)*

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

The fair value of consideration of the acquisitions was HK$315,785,000, of which HK$20,700,000 was paid by cash and the remaining balance was satisfied by the issue of 243,792,000 and 118,208,000 consideration shares on 29 May 2007 and 2 October 2007 respectively.

The acquired business contributed revenue of HK$Nil and loss after tax of HK$3,962,000 to the Group for the period from 26 May 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's turnover would have been HK$111,189,000 and loss for the year would have been HK$9,220,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is intended to be a projection of future results.

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

(a) Acquisition of subsidiaries *(Continued)*

(ii) (continued)

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

	2007 *HK$'000*
Net asset acquired:	
Property, plant and equipment	28
Exploration and evaluation assets	36,826
Other receivables	378
Bank and cash balances	4,949
Accruals and other payables	(13,622)
Due to a shareholder	(282)
Borrowings	(14,814)
Minority interests	(489)
Net assets	12,974
Translation adjustments	(779)
Fair value of net assets acquired	12,195
Purchase consideration satisfied by:	
Cash paid in 2007	5,375
Deposit paid in 2006	15,325
Issue of consideration shares *(note 30(a))*	295,085
Total purchase consideration	315,785
Fair value of net assets acquired	(12,195)
Goodwill arising on acquisition *(note 15)*	303,590
Net cash outflow arising on acquisition:	
Purchase consideration paid	(5,375)
Cash and cash equivalents acquired	4,949
	(426)

The goodwill is mainly attributable to the potential mining rights of GCM as explained in note 15.

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

(b) Disposal of subsidiaries

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

	2008
	HK$'000
Net liabilities disposed:	
Property, plant and equipment	**10,976**
Prepaid land lease payments	**1,897**
Bank and cash balances	**15**
Prepayments and other receivables	**10**
Accrual and other payables	**(193)**
Current tax liabilities	**(5)**
Deferred tax liabilities *(note 29)*	**(461)**
Due to a fellow subsidiary	**(5,681)**
Borrowings	**(7,955)**
Net liabilities disposed:	**(1,397)**
Release of foreign currency translation reserve	**(3,596)**
Gain on disposal of subsidiaries *(note 6)*	**6,993**
Total consideration – satisfied by cash	**2,000**
Net cash inflow arising on disposal:	
Cash consideration received	**2,000**
Cash and cash equivalents disposed	**(15)**
	1,985

(ii) On 3 February 2008, the operation of a Group's subsidiary was ceased, foreign currency reserve of the subsidiary at the cessation date was HK$399,000, the net gain on disposal is HK$25,000 (note 6).

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

(b) Disposal of subsidiaries *(Continued)*

(iii) On 31 December 2007, Legend Wealth entered into an sale and purchase agreement with an independent third party for the disposal of the entire equity interest of Kiu Hung Investments Limited ("KH Investments") and a shareholder loan due by KH Investments to the Group at a total consideration of HK$7,500,000.

	2007 *HK$'000*
Net assets disposed:	
Property, plant and equipment	6,650
Cash	3
Accruals and other payables	(349)
Current tax liabilities	(126)
Net assets disposed:	6,178
Gain on disposal of subsidiaries *(note 6)*	1,322
Total consideration	7,500
Satisfied by:	
Cash consideration receivable	6,500
Cash consideration received	1,000
Total consideration	7,500
Net cash inflow arising on disposal:	
Cash consideration received	1,000
Cash and cash equivalents disposed	(3)
	997

34. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2007: HK$Nil).

35. CAPITAL COMMITMENTS

At 31 December 2008, the Group did not have any significant capital commitment.

36. LEASE COMMITMENTS

At 31 December 2008, the Group had total future minimum lease receivables and payables under non-canellable operating leases falling due as follows:

	2008 HK$'000	2007 HK$'000
As lessor:		
Within one year	**60**	157
As lessee:		
Within one year	**303**	–
In the second to fifth years inclusive	**21**	–
	324	–

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

37. RELATED PARTY TRANSACTIONS

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

	2008 HK$'000	2007 HK$'000
Sales of goods to a jointly-controlled entity *(note a)*	**7,202**	6,736
Product development, sale and marketing services fee paid to a related company *(note b)*	**1,478**	1,478

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

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

During the year ended 31 December 2008, the Group borrowed a loan of HK$5,500,000 from a related company. A Company's shareholder with approximately 11% equity interests in the Company has control in this related company. The amount outstanding as at 31 December 2008 was HK$5,500,000 (2007: HK$Nil). The loan is interest bearing at 11% per annum.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of certain prepaid land lease payments previously classified under non-current assets to current assets. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2009.

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