Keep Moving for Sustainable Growth

2010 Annual Report

KH ENERGY

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

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

Our *Vision*

is to develop Kiu Hung Energy into a leading energy company in the energy and related resources sector with a global brand recognition.

Our *Value*

lies in implementing our projects in a sustainable manner, paying due care to the environment and the partnership with the peoples where we do business.

Designed & Produced by **HeterMedia Services Limited**

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Corporate Information

Executive Directors

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

Independent Non-executive Directors

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

Company Secretary

Mr. Cheung Kai Fung *CPA, FCCA*

Registered Office

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

Head Office and Principal Place of Business

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

Auditor

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

Company's Website

http://www.381energy.com

Principal Bankers

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

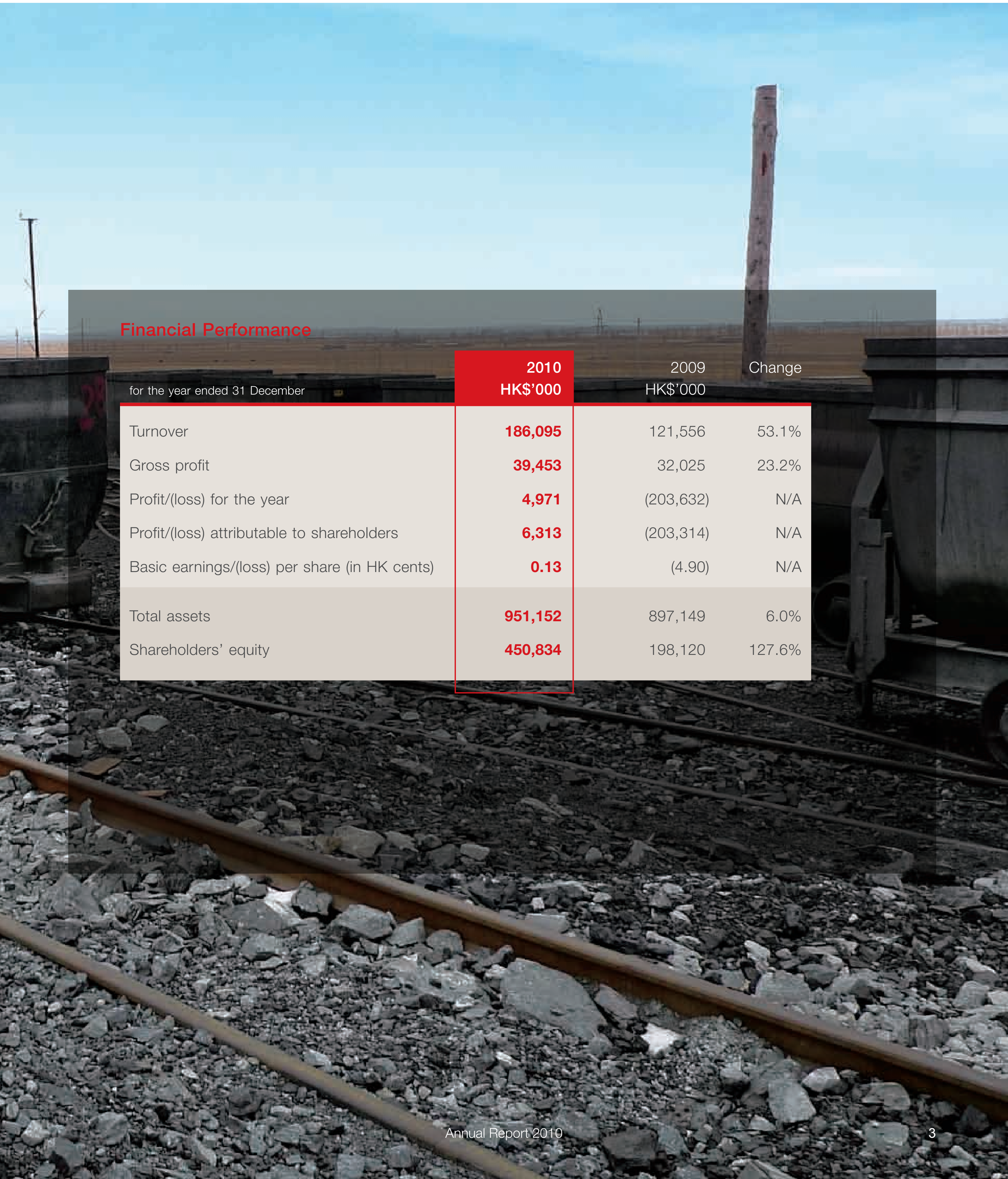
Wing Hang Bank
Head Office
161 Queen's Road
Central
Hong Kong

Cayman Islands Principal Share Registrar And Transfer Office

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

Hong Kong Branch Share Registrar And Transfer Office

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



Financial Performance

for the year ended 31 December	**2010 HK$'000**	2009 HK$'000	Change
Turnover	**186,095**	121,556	53.1%
Gross profit	**39,453**	32,025	23.2%
Profit/(loss) for the year	**4,971**	(203,632)	N/A
Profit/(loss) attributable to shareholders	**6,313**	(203,314)	N/A
Basic earnings/(loss) per share (in HK cents)	**0.13**	(4.90)	N/A
Total assets	**951,152**	897,149	6.0%
Shareholders' equity	**450,834**	198,120	127.6%

Putting the Advantages Together

Since the acquisition of 507.9 million tonnes of coal resources in aggregate, Kiu Hung Energy makes realistic progress in mining and exploration of natural resources.

Kiu Hung Energy keeps moving for sustainable growth

On behalf of the board of 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 2010 (the "Year").

Results and Dividend

During the Year, the Group recorded a turnover of approximately HK$186.1 million (2009: HK$121.6 million), representing an increase of approximately 53.0% as compared to the previous year. The Group's profit attributable to shareholders for the Year was approximately HK$6.3 million (2009: loss attributable to shareholders of HK$203.3 million). Basic earnings per share for the Year was HK$0.13 cents (2009: basic loss per share HK$4.90 cents). The Board does not recommend the payment of any dividend for the Year (2009: Nil).

The Group recorded a gain arising on change in fair value of the Company's financial liabilities at fair value through profit or loss amounting to approximately HK$51.3 million in other gain during the Year as compared to a loss on change in fair value and derecognition of convertible notes of approximately HK$163.3 million in other losses in the previous year. These were all non-cash items and were not expected to have material adverse effects to the Group's cash flow position.

Business 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.

Toys and Gifts Business

Turnover from toys and gifts business was approximately HK$175.0 million (2009: HK$121.1 million), representing an increase of approximately 44.5% as compared to the previous year. The gross profit ratio of the toys and gifts business was 23.6% for the Year (2009: 27.8%). During the year, the Group has experienced a certain level of impact on sales and profit margin in its toys and gifts business. Under this challenge, the Group restructured its product mix, continued to focus on household utility products and consumable goods and closely monitored on cost control.

Exploration and Mining of Natural Resources Business

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

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

Chairman's Statement

The HCM had officially commenced production in December 2009 as scheduled and recorded revenue of approximately HK$11.1 million during the Year (2009: HK$0.4 million). The HCM is located in Tongliao City of Inner Mongolia Autonomous Region ("Inner Mongolia"), the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, the HCM has an estimated coal resources of approximately 7.85 million tonnes of semi-anthracite coal.

The GCM is located in Xilinguolemeng of Inner Mongolia, the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, the GCM has an estimated coal resources of approximately 106 million tonnes of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal coal market. The master planning (總體規劃) of GCM has been agreed by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會)

in April 2010. In addition, such master planning has been submitted by Inner Mongolia Autonomous Region Development and Reform Commission to National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and National Energy Commission of the PRC (中華人民共和國國家能源局) for their approvals on 22 June 2010. The licence period of the exploration right of GCM is from 22 September 2009 to 22 September 2011. In order to expedite the application process of the mining licence of GCM, the Group has been closely following up the application in its best endeavour. The directors of the Company are very confident and determined to obtain the approval for the master planning of GCM from National Development and Reform Commission of the PRC and National Energy Commission of the PRC successfully during 2011.

BCF is located in Xilinguolemeng of Inner Mongolia. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, the BCF has an estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal.

Prospects

In 2011, the Group will focus on the continuous development of our coal energy business. On 8 July 2010 (as supplemented by the first and second supplemental agreements dated 20 August 2010 and 22 December 2010), the Group has entered into a conditional contract to acquire eight coal mines in the Guizhou Province of the PRC (the "Mines") at a total consideration for not more than HK$8,889,110,000 (the "Acquisition"). A technical adviser has been appointed by the Company as the competent person to prepare the technical reports on the estimated amounts of coal resources of the Mines. The Mines are preliminarily estimated to have anthracite coal resources of not less than 642.5 million tonnes. Anthracite coal is a high quality coal mainly used in power generation. Along with the growth in coal consumption in China, there is also a constant increase in the demand for anthracite coal. As Guizhou Province is located in the south-western part of China where high quality anthracite coal can be found and its geographical location is advantageous for providing supplies to the local power generation, the Acquisition in Guizhou Province is in line with the business development strategies of our coal business. For further details of the Acquisition, please refer to the Company's announcements on 1 April 2010, 20 August 2010 and 22 December 2010. The Acquisition is yet to be completed. Further details on the Acquisition will be announced by the Company at appropriate time.

During the Year, we closely looked into coal mine projects in China and other regions. The Company's management believes that the substantial proven coal resources in Mongolia is not only a good fit for our energy business expansion strategy but also fulfills the increasing coal importing demand of China. Mongolia is estimated to have huge amount of coal reserves, and its exporting amount of coal products to China is expected to increase sharply due to the increasingly friendly regulations for cross border trading from both sides. Though the lack of infrastructure in Mongolia is one of the reasons that coal reserves have not been well-developed in the past, the continuing attention and geographically advantage of Mongolia is still one of the best options to fulfill the future coal product demands in northern part of China.

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

Appreciation

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

Hui Kee Fung
Chairman

Hong Kong, 28 March 2011

At Kiu Hung Energy, we motivate ourselves to strive for bigger revenue, more acquisition and ever growing opportunities

Financial Highlights

During the Year, the Group recorded a turnover of approximately HK$186.1 million (2009: HK$121.6 million), representing an increase of approximately 53.0% as compared to the previous year. The Group's profit attributable to shareholders for the Year was approximately HK$6.3 million (2009: loss attributable to shareholders of HK$203.3 million, restated). Basic earnings per share for the Year was HK$0.13 cents (2009: basic loss per share HK$4.90 cents, restated).

The Group recorded a gain arising on change in fair value of the Company's financial liabilities at fair value through profit or loss amounting to approximately HK$51.3 million in other gain (2009: loss on change in fair value and derecognition of convertible notes of approximately HK$163.3 million in other losses). These were all non-cash items and were not expected to have material adverse effects to the Group's cash flow position.

Dividend

The Board does not recommend the payment of any dividend for the Year (2009: Nil).

Business and Operational Review

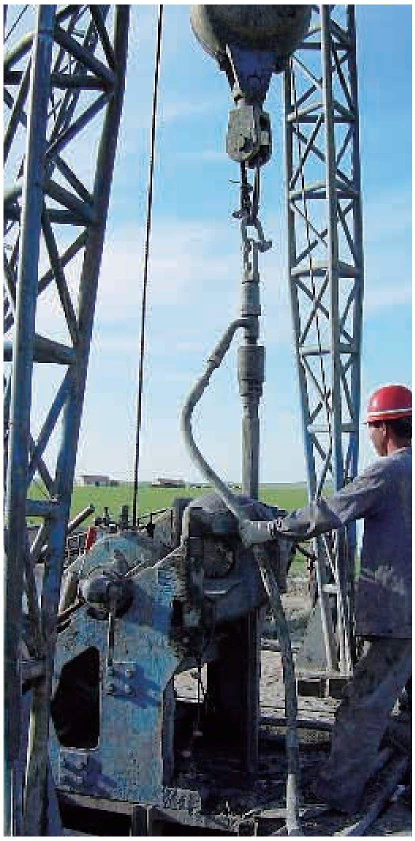
Segmental Information Analysis

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

Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business was approximately HK$175.0 million (2009: HK$121.1 million), representing an increase of approximately 44.5% as compared to the previous year. The gross profit ratio of the toys and gifts business was 23.6% for the Year (2009: 27.8%). During the year, the Group has experienced a certain level of impact on sales and profit margin in its toys and gifts business. Under this challenge, the Group restructured its product mix, continued to focus on household utility products and consumable goods and closely monitored on cost control.

Management Discussion and Analysis



KIU HUNG ENERGY
EXPANDS COAL
RESOURCES

The Group is actively focused on building its energy related resources business in a focused, professional and realistic manner.

Exploration and mining of natural resources

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BCF is located in Xilinguolemeng of Inner Mongolia. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, the BCF has an estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal.

Geographical information

During the year, the North America (includes the United States of America and Canada) recorded the largest increase in revenue by geographical market, where turnover amounted to approximately HK$146.5 million compared to approximately HK$91.1 million last year and represented 78.7% of the Group's total revenue. Sales in the European Union (includes Spain, Italy, France and the United Kingdom) recorded a slight increase of approximately 6.5% from approximately HK$18.6 million last year to approximately HK$19.8 million for the Year which represented 10.6% of the Group's total revenue.

Other income

Other income for the Year increased by approximately 86.1% to approximately HK$6.7 million as compared to approximately HK$3.6 million (as restated) in the previous year. The increase was mainly due to an increase of fair value gain on the Group's investment properties amounting to approximately HK$4.7 million.

Selling and distribution expenses

Selling and distribution expenses for the Year increased by approximately 61.6% to approximately HK$23.6 million as compared to approximately HK$14.6 million in the previous year. The increase was mainly attributable to an increase of the Group's revenue as mentioned in the above paragraph headed "Financial Highlights".

Administrative expenses

Administrative expenses for the Year increased by approximately 86.4% to approximately HK$61.5 million as compared to approximately HK$33.0 million in the previous year. The increase was mainly due to additional administrative expenses arising from (i) the commencement of the HCM's operation since December 2009; (ii) legal and professional fees incurred for the development of mining and exploration of coal business; and (iii) additional share-based payments as a result of share options granted in January 2010.

Other gain/(losses)

Other gain for the Year amounted to approximately HK$52.3 million as compared to approximately HK$166.3 million of other losses in the previous year (as restated). The significant change was mainly due to the gain arising on change in fair value of the Company's financial liabilities at fair value through profit or loss amounting to approximately HK$51.3 million as compared to the loss on change in fair value and derecognition of convertible notes of approximately HK$163.3 million in the previous year (as restated).

Management Discussion and Analysis

Finance costs

Finance cost for the Year decreased by approximately 69.3% to approximately HK$7.1 million as compared to approximately HK$23.1 million in the previous year. The decrease was mainly due to (i) the decrease of the bank loan interest by approximately HK$5.3 million as a result of the repayment of the bank loans in the previous year and (ii) approximately HK$11.9 million of interest expenses accounted for in respect of the liability component of the Company's convertible notes, in which the Company has designated the entire Altered CN1 and CN2 as financial liabilities at fair value through profit or loss since 2 October 2009, in the previous year.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had cash and bank balances of approximately HK$49.7 million as at 31 December 2010 (2009: HK$82.7 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2010, the Group's bank and other borrowings amounted to approximately HK$38.3 million (2009: HK$42.9 million). Due to the change in accounting policy as shown in note 2(a) to the consolidated financial statements, all the Group's bank and other borrowings were classified as repayable within one year. The Group's bank and other borrowings were denominated in Hong Kong dollars and Renminbi, of which approximately 63.6% (2009: 73.5%) bore interest at fixed lending rate.

The Group had financial liabilities at fair value through profit or loss of approximately HK$245.3 million at 31 December 2010 (2009: HK$445.8 million, restated). The decrease was mainly due to (i) the conversion of the convertible notes into the Company's ordinary shares during the Year and (ii) the fair value gain as mentioned in the above paragraph headed "Other gain/(losses)".

The gearing ratio of the Group calculated as the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity was approximately 6.16% as at 31 December 2010 (2009: 1.12%, restated).

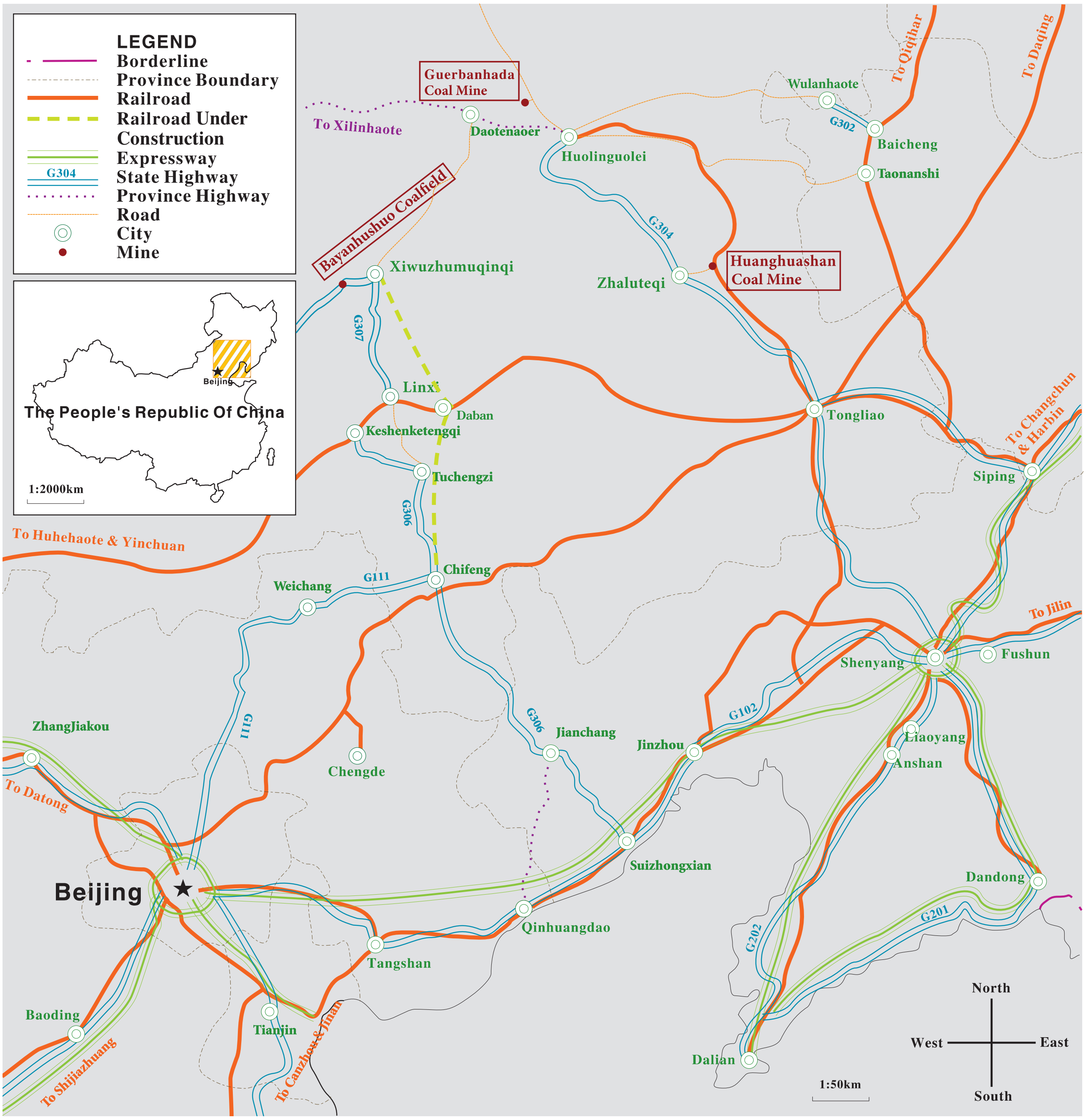
Net current assets of the Group as at 31 December 2010 was approximately HK$21.3 million (2009: HK$20.0 million, as restated) and the current ratio of the Group was approximately 27.5% (2009: 23.6%, restated).

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 2010, certain property, plant and equipment, prepaid land lease payments and investment properties held by the Group with carrying values of approximately HK$42.9 million (2009: 28.0 million), approximately HK$4.8 million (2009: HK$4.8 million) and HK$8 million (2009: Nil), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2010, the Group did not have any significant capital commitments or contingent liabilities (2009: Nil).

Location of Our Coal Projects



Business Prospects and Future Plans for Material Investment

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

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

In 2011, the Group will focus on the continuous development of our coal energy business. On 8 July 2010 (as supplemented by the first and second supplemental agreements dated 20 August 2010 and 22 December 2010), the Group has entered into a conditional contract to acquire eight coal mines in the Guizhou Province of the PRC (the "Mines") at a total consideration for not more than HK$8,889,110,000 (the "Acquisition"). A technical adviser has been appointed by the Company as the competent person to prepare the technical reports on the estimated amounts of coal resources of the Mines. The Mines are preliminarily estimated to have anthracite coal resources of not less than 642.5 million tonnes. Anthracite coal is a high quality coal mainly used in power generation. Along with the growth in coal consumption in China, there is also a constant increase in the demand for anthracite coal. As Guizhou Province is located in the south-western part of China where high quality anthracite coal can be found and its geographical location is advantageous for providing supplies to the local power generation, the Acquisition in Guizhou Province is in line with the business development strategies of our coal business. For further details of the Acquisition, please refer to the Company's announcements on 1 April 2010, 20 August 2010 and 22 December 2010. The Acquisition is yet to be completed. Further details on the Acquisition will be announced by the Company at appropriate time.

During the Year, we closely looked into coal mine projects in China and other regions. The Company's management believes that the substantial proven coal resources in Mongolia is not only a good fit for our energy business expansion strategy but also fulfills the increasing coal importing demand of China. Mongolia is estimated to have huge amount of coal reserves, and its exporting amount of coal products to China is expected to increase sharply due to the increasingly friendly regulations for cross border trading from both sides. Though the lack of infrastructure in Mongolia is one of the reasons that coal reserves have not been well-developed in the past, the continuing attention and geographically advantage of Mongolia is still one of the best options to fulfill the future coal product demands in northern part of China.

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

Capital Structure and Use of Proceeds

As at 31 December 2010, the capital structure of the Company is constituted of 5,014,426,800 ordinary shares of HK$0.02 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include convertible notes and options to subscribe for the Company's shares.

During the Year, 407,120,000 new ordinary shares have been issued by the Company (2009: 11,547,000 shares) as a result of issuing (i) 403,200,000 new ordinary shares upon the conversion of the Company's convertible notes (2009: Nil) and (ii) 3,920,000 new ordinary shares upon the exercise of share options by the option holders (2009: 11,547,000 shares).

During the Year, 68,000,000 new share options (2009: 27,000,000) have been granted under the share option scheme adopted by the Company. As at 31 December 2010, 142,198,600 share options remained outstanding (2009: 81,118,600 share options).

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

Pursuant to the Company's announcement dated 18 January 2010, the Company entered into a top-up placing agreement with a placing agent to place 180,000,000 new ordinary shares of the Company at placing price of HK$0.339 per share to not less than six independent investors on 18 January 2010. The net subscription price (after deducting the placing expenses of approximately HK$1.60 million) is approximately HK$0.329 per share. The net proceeds of approximately HK$59.42 million would be used as follows: (i) approximately HK$15 million for repayment of the Group's borrowings and (ii) approximately HK$44.42 million as capital expenditure for the Group's coal energy business and as general working capital of the Group.

Employment, Training and Development

At 31 December 2010, the Group had a total of 709 employees (2009: 735 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.

Restatements due to Correction of Prior Year Errors and Change in Accounting Policies

The details of restatements due to correction of prior year errors and change in accounting policies are set out in note 3 to the consolidated financial statements.

Profile of Directors and Senior Management

Directors

Executive Directors

Mr. Hui Kee Fung, aged 50, has been appointed as executive director and chairman of the Company since November 2000. He has over 20 years of experience in various industries. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management College, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the PRC, an Executive Director of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Deputy Managing Director of The Fujian Putian University in the PRC, and an Honorary Citizen of Putian, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. Yu Won Kong, Dennis, aged 61, has been appointed as executive director since October 2009. He is also the chief executive officer of the Company and has over 20 years of experience in financial investment field. From 2003 to 2006, Mr. Yu was a director of Fortuna International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the period from 1995 to 2003, he acted as executive director respectively in several listed companies in Australia, Frankfurt and NASDAQ and was responsible for identifying acquisition targets, raising fund, and monitoring those companies' direct investment activities in the PRC. Mr. Yu is also the chairman and executive director of Ruifeng Petroleum Chemical Holdings Limited, formerly known as Thinsoft (Holdings) Inc, a company listed on the Growth Enterprise Market of the Stock Exchange ("GEM").

Mr. Guo Tianjue, aged 71, has been appointed as executive director since October 2009. He graduated from Wuhan University with a bachelor's degree in science. From 1963 to 1975, Mr. Guo held the position of engineer of Nuclear Power Institute of China. From 1975 to 1983, Mr. Guo was the chief engineer and held many other managerial positions of Department of Nuclear Power, Ministry of Nuclear Industry. From 1983 to 1986, Mr. Guo was the chief secretary and held many other managerial positions of Guangdong Nuclear Power Construction Command Office and Guangdong Nuclear Power Joint Venture Co. Ltd. Mr. Guo was awarded an Honor Certificate from government of the PRC in October 1985 for his long-standing contribution to the nuclear industry. Since 1987, Mr. Guo served as director or senior consultant of a number of financial institutions, securities, energy and investment firms in the mainland China and Hong Kong. Mr. Guo has accumulated over 30 years of experience in economics, finance, securities and enterprise management. Currently, Mr. Guo is also the board member of China Mergers & Acquisitions Association of All-China Federation of Industry & Commerce and the honorary president of China Universities Alumni (Hong Kong) Association.

Mr. Lam Kit Sun, aged 33, has been appointed as executive director since October 2009. He has over 10 years of experience in the field of financial reporting, financial management and audit experience in Greater China area and Hong Kong. Mr. Lam has worked in an international accountancy firm in Hong Kong for over 4 years and has been the company secretary and qualified accountant of China Leason Investment Group Co. Limited, a company listed on GEM. Mr. Lam is a practicing member of the Hong Kong Institute of Certificate Public Accountants. Mr. Lam is also the non-executive director of Ruifeng Petroleum Chemical Holdings Limited, formerly known as Thinsoft (Holdings) Inc, a company listed on the GEM.

Independent Non-Executive Directors

Mr. Lam Siu Lun, Simon, aged 61, has been appointed as independent non-executive director since October 2009. He graduated from the University of Hong Kong in 1973. After graduation, he worked at KPMG London and Hong Kong and obtained his qualification as a Chartered Accountant and Certified Public Accountant from the Institute of Chartered Accountants in England and Wales and Hong Kong Institute of Certified Public Accountants respectively. Mr. Lam has been a practicing accountant for over 19 years and is the proprietor of Messrs. S. L. Lam & Company. He has served as a member of the Insider Dealing Tribunal on a number of occasions. He is an independent non-executive director and audit committee member of Lifestyle International Holdings Limited, and Le Saunda Holdings Ltd, companies whose securities are listed on the Stock Exchange.

Mr. Zhang Xianmin, aged 57, has been appointed as independent non-executive director since October 2009. He graduated from China Central Radio and Television University with a degree in administration. Mr. Zhang currently holds the following positions: Chairman of China Economic & Culture Fund in Hong Kong, Chairman of magazine "Coastline", Part-time Professor of Xiamen University, Part-time Professor of Zhongnan University of Economics and Law, Chief Coordinator of Aid-the-Poor & Aid-the-Students Programme of Hong Kong Society for the Promotion of Virtue, Deputy Secretary-General of China Economics Award Administration Committee, Director of Hong Kong Branch, China Council for the Promotion of Peaceful National Reunification. In addition, he once served as deputy chairman of Shenzhen Association of Enterprises with Foreign Investment.

Mr. Mohammed Ibrahim Munshi, aged 51, has been appointed as independent non-executive director since October 2009. He graduated from Portsmouth Polytechnic in 1986 with a bachelor's degree in Geology and obtained a Master of Business Administration from the University of Central Queensland in 1996. Mr. Munshi is a geologist with an extensive mining engineering background of over 20 years experience, in exploration, development, production and both technical and corporate management in the gold and coal mining industry. Mr. Munshi is currently the chairman and managing director of Prosperity Resources Limited, a Western Australian based gold-copper explorer listed on the Australian Securities Exchange. He is also the non-executive chairman of Paramount Mining Corporation Limited, a company listed on the Australian Stock Exchange with a strategic focus on coal and infrastructure projects in Indonesia. Mr. Munshi has a broad exposure to large multi-national corporations and junior mining and entrepreneurial companies, having working previously for Ivanhoes Mines Limited, ACM Limited, Posgold/Normandy Mining, Great Central Mines NL, Ashanti Goldfields Limited and JCI Limited and was involved in project evaluation, financing, legal and administrative functions in these companies. Over the last six years, Mr. Munshi has been involved in a number of significant capital raising for exploration and mining projects in Asia, South America and Europe. He has worked extensively in coal projects and the related infrastructure in Asia, particularly in the PRC and Mongolia.

Senior Management

Mr. Cheung Kai Fung, aged 36, is the chief financial officer and company secretary of the Company. Mr. Cheung holds a bachelor in business administration degree in information and systems management from The Hong Kong University of Science and Technology. Mr. Cheung is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was the group financial controller, qualified accountant and joint company secretary of China Sunshine Paper Holdings Company Limited, a company listed on the main board of the Stock Exchange, prior to joining the Company. Mr. Cheung has over 10 years of finance, investor relations and audit experience.

Mr. Yang Runzhi, aged 56, is the managing director of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited, the wholly owned subsidiary of the Company. He has 25 years of experience in military and government and over 10 years of experience in the coal industry in Inner Mongolia. He is a Senior Economist for coal industry and has worked as the General Manager of Beijing Zhongmei Hengrun Co., Ltd. (北京中煤恒潤有公司, a subsidiary of the China Coal Group). He has in-depth knowledge in the sales and marketing of coals, processing of coal products and purchasing of coal mine machinery and equipment.

Mr. Hui Ki Yau, aged 49, is the president of the Group's toy and gift business. He is responsible for the operations and the sales and marketing functions of the toy and gift business of the Group. Mr. Hui has over 20 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 42, is the operation manager of the Group's toys and gifts business. Madam Hui has over 16 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

Report of the Directors

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

Principal Activities

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

Segment Information

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2010 is set out in note 7 to the consolidated financial statements.

Results and Dividends

The Group's result for the year ended 31 December 2010 and the state of affairs of the Company and of the Group at that date are set out in the consolidated financial statements on pages 34 to 38.

The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2010.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

Investment Properties

Details of the Group's investment properties are set out in note 15 to the consolidated financial statements.

Borrowings

Details of the borrowings of the Group as at 31 December 2010 are set out in note 27 to the consolidated financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 32 and 34 to the consolidated financial statements.

Reserves

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

Distributable Reserves

As at 31 December 2010, the Company had distributable reserves of approximately HK$356.2 million (2009: HK$99.8 million). Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the contributed surplus and share premium of the Company of HK$125.2 million (2009: HK$125.2 million) and HK$758.1 million (2009: HK$560.5 million), respectively, at 31 December 2010 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 118 of the annual report.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities

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

Charitable Contributions

During the year, the Group made charitable contributions totaling approximately HK$42,000 (2009: HK$2,000).

Retirement Benefits Schemes

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

The total cost charged to the consolidated income statement of approximately HK$2,470,000 (2009: approximately HK$2,949,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2009: Nil) was available at 31 December 2010 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 2010 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 80.1% of the total sales for the year and sales to the largest customer included therein accounted for approximately 38.6%. Purchases from the Group's five largest suppliers accounted for approximately 50.2% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 10.6%.

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

Directors

The directors of the Company during the year were:

Executive directors:

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

Independent non-executive directors:

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

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

In accordance with article 87 of the Company's articles of association, Mr. Lam Kit Sun, Mr. Lam Siu Lun, Simon and Mr. Mohammed Ibrahim Munshi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Profile of Directors and Senior Management

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 18 to 19 of the annual report.

Directors' Service Contracts

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

Mr. Yu Won Kong, Dennis and Mr. Guo Tianjue have entered into a service contract with the Company for an initial term of two years commencing on 22 October 2009, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Lam Kit Sun has entered into a service contract with the Company for an initial term of two years commencing on 27 October 2009, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

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

Term of Non-Executive Directors

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

Directors' Interests in Contracts

Save for transactions as disclosed to notes 30 and 38 to the consolidated financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Directors' Interests in Shares

As at 31 December 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Name of director	**Number or attributable number of shares held or short positions**	**Interest of controlled corporation**	**Capacity Interest of child under 18 or spouse**	**Beneficial owner**	**Approximate percentage or attributable percentage of shareholdings** (%)
Yu Won Kong, Dennis *(Note 1)*	1,278,221,872(L)	754,721,872(L)	14,500,000(L)	509,000,000(L)	25.49%
Hui Kee Fung *(Note 2)*	775,500,000(L)	767,500,000(L)	–	8,000,000(L)	15.47%
Guo Tianjue	8,000,000(L)	–	–	8,000,000(L)	0.16%
Lam Kit Sun	8,000,000(L)	–	–	8,000,000(L)	0.16%
Lam Siu Lun, Simon	6,000,000(L)	–	–	6,000,000(L)	0.12%
Zhang Xianmin	6,000,000(L)	–	–	6,000,000(L)	0.12%
Mohammed Ibrahim Munshi	6,000,000(L)	–	–	6,000,000(L)	0.12%

L: Long Position

Notes:

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

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

Save as disclosed above, none of the directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2010.

Save as disclosed above, as at the 31 December 2010, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

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

Share Option Scheme

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

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

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

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

	Number of share options					
Grantee	**Outstanding at 1 January 2010**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 31 December 2010**	**Exercise price**
Executive directors	–	34,000,000	–	–	34,000,000	HK$0.4000
	–	34,000,000	–	–	34,000,000	HK$0.6000
Independent non-executive directors	9,000,000	–	–	–	9,000,000	HK$0.4000
	9,000,000	–	–	–	9,000,000	HK$0.6000
Employees	50,818,600	–	(3,920,000)	–	46,898,600	HK$0.1016
	6,000,000	–	–	(3,000,000)	3,000,000	HK$0.4240
	3,000,000	–	–	–	3,000,000	HK$0.6000
	3,300,000	–	–	–	3,300,000	HK$0.7400
	81,118,600	68,000,000	(3,920,000)	(3,000,000)	142,198,600	

Further details of the exercisable periods of the share options are disclosed in note 34 to the consolidated financial statements.

Substantial Shareholders

So far as is known to any director or chief executive of the Company, as at 31 December 2010, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

		Capacity		
Name of Shareholders	**Number of shares or underlying approximate shareholding**	**Beneficial owner**	**Interest of controlled corporation**	**Interest of child under 18 or spouse**
Ho Siu Lan, Sandy *(Note 1)*	1,278,221,872 25.49%	(L) 14,500,000	–	(L) 1,263,721,872
Chung Chi Shing *(Note 4)*	919,041,872 18.33%	(L) 164,320,000	(L) 754,721,872	–
Kau Man Wai, Leslie *(Note 3)*	866,591,872 17.28%	(L) 111,870,000	(L) 754,721,872	–
Legend Win Profits Limited *(Note 2)*	767,500,000 15.31%	(L) 767,500,000	–	–
Top Advance Group Limited *(Notes 3 & 4)*	754,721,872 15.05%	–	(L) 754,721,872	–
Gold Dynasty Investments Limited *(Note 4)*	754,721,872 15.05%	(L) 754,721,872	–	–
Ruan Yuan	530,000,000 10.56%	(L) 530,000,000	–	–

L: Long Position

Notes:

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

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

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

4. *The 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.*

Continuing Connected Transactions

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

(1) The Toland Transactions

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

During the year, the amount of transactions made between Toland and KH Industries in respect of purchases amounted to approximately HK$7,392,000 (2009: HK$6,446,000), and which were within the relevant annual cap approved by the shareholders of the Company.

(2) The Administration transactions

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

During the year, the amount of transactions made between Toland and KH Industries in respect of services amounted to approximately HK$554,000 (2009: HK$554,000), and which were within the relevant annual cap approved by the shareholders of the Company.

(3) The Marketing Resource transactions

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

During the year, the amount of transactions made between Toland and Marketing Resource in respect of purchases amounted to approximately HK$10,806,000 (2009: HK$5,435,000), and which were within the relevant annual cap approved by the shareholders of the Company.

(4) **The Service transactions**

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

During the year, the amount of transactions made between Miracles USA and Better Sourcing in respect of services amounted to approximately HK$1,626,000 (2009: HK$1,184,000), and which were within the relevant annual cap approved by the shareholders of the Company.

(5) **The Better Sourcing transactions**

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

During the year, the amount of transactions made between KH Industries and Better Sourcing in respect of purchases amounted to approximately HK$7,524,000 (2009: HK$5,298,000), and which were within the relevant annual cap approved by the shareholders of the Company.

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

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 26 to 27 in accordance with paragraph 14A.38 of the Listing Rules. The auditor's letter was qualified with respect to the fact that Marketing Resource did not settle the trade amount to Toland within the credit terms of 45 days during the year ended 31 December 2010. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors' Interests in Competing Business

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

Sufficiency of Public Float

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

Corporate Governance

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 29 to 31.

Independent Confirmation

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

Event after the reporting period

Details of the events after the reporting period are set out in note 40 to the consolidated financial statements.

Auditor

PricewaterhouseCoopers ("PwC") was appointed to fill the casual vacancy created by RSM Nelson Wheeler on the annual general meeting dated 30 June 2010. PwC will retire and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hui Kee Fung
Chairman

Hong Kong
28 March 2011

Introduction

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2010, the Company has substantially complied with the provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Directors' Securities Transactions

The Group has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2010.

Board of Directors

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

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

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

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

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

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. 15 Board meetings were held in 2010. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meetings during 2010 is set out below:

	Attendance/Number of Meetings		
Director	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Director			
Mr. Hui Kee Fung *(Chairman)*	14/15	N/A	1/2
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*	13/15	N/A	N/A
Mr. Guo Tianjue	13/15	N/A	N/A
Mr. Lam Kit Sun	14/15	N/A	N/A
Independent Non-Executive Director			
Mr. Lam Siu Lun, Simon	14/15	2/2	2/2
Mr. Zhang Xianmin	14/15	2/2	2/2
Mr. Mohammed Ibrahim Munshi	13/15	2/2	2/2

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

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 18 to 19.

Chairman and Chief Executive Officer

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Yu Won Kong, Dennis as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on pages 18 to 19.

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. Two meetings were held by the Remuneration Committee in 2010. Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2010 include:

Mr. Lam Siu Lun, Simon – *Chairman*
Mr. Zhang Xianmin
Mr. Mohammed Ibrahim Munshi
Mr. Hui Kee Fung

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

Nomination Committee

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request. No meeting was held by the Nomination committee in 2010.

Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2010 include:

Mr. Zhang Xianmin – *Chairman*
Mr. Lam Siu Lun, Simon
Mr. Mohammed Ibrahim Munshi
Mr. Hui Kee Fung

Audit Committee

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Two meetings were held by the Audit Committee in 2010. All committee members are independent non-executive directors. Its members as at 31 December 2010 include:

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

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

Internal Controls

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

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

Auditor's Remuneration

During the year, the Group has incurred auditor's remuneration of HK$2,800,000 (2009: HK$1,000,000) all of which was paid/payable to the Company's existing auditor, PricewaterhouseCoopers. In addition, professional fee of approximately HK$81,000 (2009: HK$148,000) was payable by the Group for the taxation and other services rendered by PricewaterhouseCoopers (2009: RSM Nelson Wheeler).

Financial Reporting

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

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

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
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To the shareholders of Kiu Hung Energy Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kiu Hung Energy Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 117, which comprise the consolidated and company statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000 (Restated)
Turnover	7	**186,095**	121,556
Cost of sales		**(146,642)**	(89,531)
Gross profit		**39,453**	32,025
Other income	7	**6,676**	3,564
Selling and distribution costs		**(23,584)**	(14,554)
Administrative expenses		**(61,463)**	(32,974)
Other gain/(losses)	10	**52,291**	(166,279)
Operating profit/(loss)		**13,373**	(178,218)
Finance costs	8	**(7,104)**	(23,060)
Share of profit/(loss) of a jointly controlled entity	20	**46**	(366)
Profit/(loss) before income tax		**6,315**	(201,644)
Income tax expense	9	**(1,344)**	(1,988)
Profit/(loss) for the year	10	**4,971**	(203,632)
Profit/(loss) attributable to:			
– equity holders of the Company		**6,313**	(203,314)
– non-controlling interests		**(1,342)**	(318)
		4,971	(203,632)
		HK cents	HK cents
Earnings/(loss) per share attributable to the equity holders of the Company	11		
– basic		**0.13**	(4.90)
– diluted		**(0.78)**	(4.90)

The notes on pages 43 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000 (Restated)
Profit/(loss) for the year	**4,971**	(203,632)
Other comprehensive income:		
Exchange difference arising from translation of foreign operations	**17,834**	143
Surplus on revaluation of properties	**15,907**	2,615
Deferred tax arising on revaluation of properties	**(2,861)**	220
Other comprehensive income for the year, net of tax	**30,880**	2,978
Total comprehensive income/(loss) for the year	**35,851**	(200,654)
Total comprehensive income/(loss) attributable to:		
– equity holders of the Company	**37,193**	(200,336)
– non-controlling interests	**(1,342)**	(318)
	35,851	(200,654)

The notes on pages 43 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2010

	Note	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	*13*	**85,584**	69,596	63,768
Prepaid land lease payments	*14*	**4,639**	4,643	4,742
Investment properties	*15*	**8,500**	3,600	3,440
Goodwill	*16*	**–**	–	–
Exploration and evaluation assets	*17*	**750,843**	711,889	711,889
Mining right	*18*	**–**	–	–
Other intangible asset	*19*	**1,105**	1,117	1,129
Interest in a jointly controlled entity	*20*	**1,423**	1,377	1,743
Deferred tax assets	*31*	**280**	–	–
		852,374	792,222	786,711
Current assets				
Inventories	*22*	**18,287**	14,275	18,125
Trade receivables	*23*	**13,977**	2,804	5,014
Prepayments, deposits and other receivables		**10,190**	3,745	2,931
Due from a jointly controlled entity	*20*	**6,509**	593	3,256
Tax recoverable		**116**	511	218
Financial assets at fair value through profit or loss	*24*	**–**	286	286
Bank and cash balances	*25*	**49,699**	82,713	69,019
		98,778	104,927	98,849
Total assets		**951,152**	897,149	885,560
Current liabilities				
Trade payables	*26*	**17,893**	12,896	10,165
Accruals and other payables		**20,015**	28,349	24,731
Tax payable		**1,275**	789	398
Borrowings	*27*	**38,300**	42,894	39,647
Derivative financial instruments	*28*	**–**	–	1,059
Promissory notes	*29*	**–**	–	95,416
		77,483	84,928	171,416
Net current assets/(liabilities)		**21,295**	19,999	(72,567)
Total assets less current liabilities		**873,669**	812,221	714,144

	Note	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)
Non-current liabilities				
Borrowings	*27*	**–**	–	17,613
Convertible notes	*28*	**–**	–	234,128
Financial liabilities at fair value through profit or loss	*30*	**245,285**	445,800	–
Deferred tax liabilities	*31*	**177,550**	168,301	168,521
		422,835	614,101	420,262
Net assets		**450,834**	198,120	293,882
Equity				
Share capital	*32*	**100,289**	88,546	82,315
Reserves	*33*	**350,254**	107,941	209,616
Equity attributable to equity holders of the Company		**450,543**	196,487	291,931
Non-controlling interests		**291**	1,633	1,951
Total equity		**450,834**	198,120	293,882

The notes on pages 43 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 34 to 117 were approved by the Board of Directors of the Company on 28 March 2011 and were signed on its behalf.

Hui Kee Fung
Director

Yu Won Kong, Dennis
Director

Statement of Financial Position

At 31 December 2010

	Note	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000
Non-current assets				
Property, plant and equipment	*13*	**679**	–	–
Investments in subsidiaries	*21*	**746,174**	642,791	651,223
		746,853	642,791	651,223
Current assets				
Prepayment, deposits and other receivables		**492**	491	171
Bank and cash balances	*25*	**20,372**	59,406	36
		20,864	59,897	207
Total assets		**767,717**	702,688	651,430
Current liabilities				
Accruals and other payables		**5,969**	3,474	3,095
Borrowings	*27*	**–**	2,000	29,500
Due to subsidiaries	*21*	**60,000**	63,036	–
Derivative financial instruments	*28*	**–**	–	1,059
Promissory notes	*29*	**–**	–	95,416
		65,969	68,510	129,070
Net current liabilities		**(45,105)**	(8,613)	(128,863)
Total assets less current liabilities		**701,748**	634,178	522,360
Non-current liabilities				
Convertible notes	*28*	**–**	–	234,128
Financial liabilities at fair value through profit or loss	*30*	**245,285**	445,800	–
		245,285	445,800	234,128
Net assets		**456,463**	188,378	288,232
Equity				
Share capital	*32*	**100,289**	88,546	82,315
Reserves	*33*	**356,174**	99,832	205,917
Total equity		**456,463**	188,378	288,232

The notes on pages 43 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 34 to 117 were approved by the Board of Directors of the Company on 28 March 2011 and were signed on its behalf.

Hui Kee Fung
Director

Yu Won Kong, Dennis
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital HK$'000 *(note 32)*	Share premium HK$'000 *(note (a))*	Statutory reserve HK$'000 *(note (b))*	Contributed surplus HK$'000 *(note (c))*	Foreign currency translation reserve HK$'000 *(note (d))*	Share-based payment reserve HK$'000 *(note (e))*	Property revaluation reserve HK$'000 *(note (f))*	Non-listed warrants reserve HK$'000 *(note (g))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009, as previously reported	82,315	462,126	1,645	303	53,130	5,262	5,141	–	(323,641)	286,281	1,951	288,232
Correction of prior year errors with respect to:												
Sales commission of toys business *(note 3(c))*	–	–	–	–	–	–	–	–	(3,146)	(3,146)	–	(3,146)
Inventory provision of toys business *(note 3(d))*	–	–	–	–	–	–	–	–	8,796	8,796	–	8,796
At 1 January 2009, as restated	82,315	462,126	1,645	303	53,130	5,262	5,141	–	(317,991)	291,931	1,951	293,882
Total comprehensive income/(loss) for the year	–	–	–	–	143	–	2,835	–	(203,314)	(200,336)	(318)	(200,654)
Issue of shares upon exercise of share options *(note 32(a))*	231	1,763	–	–	–	(821)	–	–	–	1,173	–	1,173
Issue of shares on placement *(note 32(c))*	6,000	96,800	–	–	–	–	–	–	–	102,800	–	102,800
Share issuance costs	–	(182)	–	–	–	–	–	–	–	(182)	–	(182)
Issue of non-listed warrants	–	–	–	–	–	–	–	409	–	409	–	409
Recognition of share-based payment *(note 34)*	–	–	–	–	–	692	–	–	–	692	–	692
Release on forfeiture of share options *(note 34)*	–	–	–	–	–	(20)	–	–	20	–	–	–
Transfer to reserve	–	–	260	–	–	–	–	–	(260)	–	–	–
At 31 December 2009, as restated	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(521,545)	196,487	1,633	198,120
At 31 December 2009, as previously reported	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(388,228)	329,804	1,633	331,437
Correction of prior year errors with respect to:												
Development expenditures incurred for Huanghuashan Coal Mine *(note 3(a))*	–	–	–	–	–	–	–	–	2,001	2,001	–	2,001
Staff costs incurred for Huanghuashan Coal Mine *(note 3(b))*	–	–	–	–	–	–	–	–	1,458	1,458	–	1,458
Sales commission of toys business *(note 3(c))*	–	–	–	–	–	–	–	–	(1,886)	(1,886)	–	(1,886)
Inventory provision of toys business *(note 3(d))*	–	–	–	–	–	–	–	–	8,169	8,169	–	8,169
Fair value of financial liabilities at fair value through profit or loss *(note 3(e))*	–	–	–	–	–	–	–	–	(143,059)	(143,059)	–	(143,059)
At 31 December 2009, as restated	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(521,545)	196,487	1,633	198,120
Total comprehensive income/(loss) for the year	–	–	–	–	17,834	–	13,046	–	6,313	37,193	(1,342)	35,851
Issue of shares upon exercise of share options *(note 32(a))*	79	599	–	–	–	(279)	–	–	–	399	–	399
Exercise of convertible notes to ordinary shares *(note 32(b))*	8,064	141,120	–	–	–	–	–	–	–	149,184	–	149,184
Issue of shares on placement *(note 32(c))*	3,600	55,828	–	–	–	–	–	–	–	59,428	–	59,428
Release on forfeiture of non-listed warrants	–	–	–	–	–	–	–	(409)	409	–	–	–
Release on forfeiture of share options *(note 34)*	–	–	–	–	–	(218)	–	–	218	–	–	–
Recognition of share-based payment *(note 34)*	–	–	–	–	–	7,852	–	–	–	7,852	–	7,852
Transfer to reserve	–	–	1,286	–	–	–	–	–	(1,286)	–	–	–
At 31 December 2010	100,289	758,054	3,191	303	71,107	12,468	21,022	–	(515,891)	450,543	291	450,834

The notes on pages 43 to 117 are an integral part of these consolidated financial statements.

Notes:

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

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

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

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000 (Restated)
Cash flows from operating activities			
Profit/(loss) before tax		**6,315**	(201,644)
Adjustments for:			
(Write-back of)/provision for impairment of amount due from a jointly-controlled entity		**(160)**	1,857
Amortisation of other intangible assets		**12**	12
Amortisation of prepaid land lease payments		**145**	98
Depreciation of property, plant and equipment		**10,915**	6,235
Provision for impairment of trade receivable		**60**	–
Fair value gain on investment properties		**(4,671)**	(158)
Fair value loss on financial assets at fair value through profit or loss		**286**	–
(Gain)/loss on change in fair value and derecognition of convertible notes	*10*	**(51,331)**	163,262
Interest expenses		**7,104**	23,060
Interest income		**(26)**	(218)
Write-off and loss on disposals of property, plant and equipment		**3,269**	–
Provision for inventory obsolescence		**449**	149
Share of (profit)/loss of a jointly-controlled entity		**(46)**	366
Share-based payment expenses		**7,852**	692
Operating loss before working capital changes		**(19,827)**	(6,289)
(Increase)/decrease in inventories		**(3,539)**	3,701
(Increase)/decrease in trade receivables		**(11,227)**	2,210
Increase in prepayments, deposits and other receivables		**(6,270)**	(814)
(Increase)/decrease in amount due from a jointly-controlled entity		**(5,756)**	806
Increase in trade payables		**4,580**	2,731
Increase/(decrease) in trust receipt loans		**8,847**	(2,524)
(Decrease)/increase in accruals and other payables		**(8,458)**	3,618
Cash (use in)/ generated from operations		**(41,650)**	3,439
Interest paid		**(7,104)**	(11,125)
Income taxes paid		**(99)**	(1,905)
Net cash used in operating activities		**(48,853)**	(9,591)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000 (Restated)
Cash flows from investing activities			
Interest received		**26**	218
Purchases of property, plant and equipment		**(16,292)**	(9,503)
Proceeds from disposals of property, plant and equipment		**3,426**	–
Increase in exploration and evaluation rights		**(14,234)**	–
Net cash used in investing activities		**(27,074)**	(9,285)
Cash flows from financing activities			
Bank and other loans raised		**33,332**	18,933
Repayment of bank and other loans		**(47,832)**	(30,775)
Shares issuance costs		**–**	(182)
Costs for issuing non-listed warrants		**–**	(91)
Proceeds from issuance of non-listed warrants		**–**	500
Proceeds from exercise of share options		**399**	1,173
Proceeds from issuing shares on placements		**61,020**	105,600
Costs for issuing shares on placement		**(1,592)**	(2,800)
Repayment of promissory notes		**–**	(60,000)
Net cash generated from financing activities		**45,327**	32,358
Net (decrease)/increase in cash and cash equivalents		**(30,600)**	13,482
Cash and cash equivalents at 1 January		**82,713**	69,019
Effect of foreign exchange rate changes		**(2,414)**	212
Cash and cash equivalents at 31 December		**49,699**	82,713
Analysis of the balances of cash and cash equivalents at 31 December			
Bank and cash balances	*25*	**49,699**	82,713

The notes on pages 43 to 117 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

2. ADOPTION OF NEW AND AMENDED STANDARDS BY THE GROUP

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to Hong Kong Accounting Standards ("HKAS") HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

2. ADOPTION OF NEW AND AMENDED STANDARDS BY THE GROUP *(Continued)*

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010. *(Continued)*

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. The classification of leasehold land in Hong Kong has been reassessed as a finance lease and accounted for as property, plant and equipment. The classification of land use right in the PRC has been reassessed as an operating lease and accounted for as prepaid land lease payments. The adoption of HKAS 17 (amendment) does not have any impact on the consolidated financial statements.

- In November 2010 the HKICPA issued Hong Kong Interpretation 5, 'Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause'. The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1, 'Presentation of Financial Statements'. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

  In order to comply with the requirements of Hong Kong Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the consolidated statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

  The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 January 2009, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

  Please refer to note 3(f) for the results from the adoption of Hong Kong Interpretation 5 on the consolidated statement of financial position.

2. ADOPTION OF NEW AND AMENDED STANDARDS BY THE GROUP *(Continued)*

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group. HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

2. ADOPTION OF NEW AND AMENDED STANDARDS BY THE GROUP *(Continued)*

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) *(Continued)*

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, ' Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of IFRS/HKFRS 2', and HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of Group arrangements that were not covered by that interpretation.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

The Group's and the Company's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not early adopted this new standard. And the Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the new standard on the financial instruments.

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the parent will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

2. ADOPTION OF NEW AND AMENDED STANDARDS BY THE GROUP *(Continued)*

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted *(Continued)*

- HK(IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the parent entity's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to HK(IFRIC) – Int 14). The amendments correct an unintended consequence of HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK(IFRIC) – Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES

In preparing the Group's consolidated financial statements for the year ended 31 December 2010, the Group has identified certain errors in its consolidated financial statements for the years ended 31 December 2009 and 2008. A detailed description of the nature of each prior year error is provided in notes 3(a) to (e) below. The amounts of the prior year correction for each financial statement line item affected are presented in the tables in note 3(f)(I) to note 3(f)(V) below. The detailed description of the change in accounting policies is stated in note 2(a).

(a) Development expenditures incurred for Huanghuashan Coal Mine

The Group incurred approximately HK$2,001,000 to develop the Huanghuashan Coal Mine in 2009, during which these expenditures were expensed as incurred. However, since these expenditures were directly attributable to bringing the mine for its intended use, accordingly, such expenditures should be capitalised as mining structure asset under property, plant and equipment. As a result, the carrying amount of property, plant and equipment should be increased by approximately HK$2,001,000 as at 31 December 2009, and the loss for the year then ended reduced by the same amount.

(b) Staff costs incurred for Huanghuashan Coal Mine

During 2009, staff costs of approximately HK$1,458,000 were incorrectly expensed as incurred. Approximately HK$617,000 of these costs was directly attributable to bringing the mine for its intended use, and accordingly, such costs should be capitalised as mining structure asset under property, plant and equipment. As a result, the carrying amount of property, plant and equipment should be increased by approximately HK$617,000, and the loss for the year then ended reduced by the same amount. The remaining costs of approximately HK$841,000 represented accrual for staff benefits which were over-provided as at 31 December 2009. As a result, accruals and other payables should be reduced by approximately HK$841,000 at 31 December 2009, and the loss for the year then ended reduced by the same amount.

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES *(Continued)*

(c) Sales commission of toys business

The Group incorrectly recognised sales commission to a sales agent of the Group on a cash basis for each of the years ended 31 December 2009 and 31 December 2008. Accordingly, sales commission payable should be increased by approximately HK$1,886,000 and HK$3,146,000 as at 31 December 2009 and 31 December 2008, respectively, to reflect the recognition of sales commission on an accrual basis. Loss for the year ended 31 December 2009 should be decreased by approximately HK$1,260,000.

(d) Inventory provision of toys business

The directors have conducted a review on the basis of estimating inventory provision in prior years and concluded that the basis adopted previously was inappropriate. The provision for net realisable value of raw materials was wrongly estimated by comparing the carrying amounts with the latest purchase price of the raw materials, notwithstanding that the finished goods into which the raw materials were to be incorporated could still be sold at a profit. The previous basis does not comply with HKAS 2, Inventories, which requires no provision for raw materials if the finished goods could be sold at or above cost. Accordingly, the carrying values of inventories should be increased by approximately HK$8,796,000 and HK$8,169,000 at 1 January 2009 and 31 December 2009, respectively, and loss for the year ended 31 December 2009 should be increased by approximately HK$627,000.

(e) Fair value of financial liabilities at fair value through profit or loss

As set out in note 30 to the consolidated financial statements, the Group issued Altered CN1 and CN2 in October 2009. The convertible notes were issued with a restriction such that any conversion of the notes will not result in the note holders holding more than 28% of the entire issued share capital of the Company at any time before the maturity date of the notes (the "Restriction"). At 31 December 2009, the convertible notes, classified as financial liabilities at fair value through profit or loss for accounting purpose, were measured at fair value. In estimating the fair value of the convertible notes at 31 December 2009, it was assumed that the Restriction would significantly reduce the fair value of the notes. However, since the notes can be transferred or assigned to any third party, the Restriction should not have a significant effect on the fair value of the notes. Accordingly, the financial liabilities at fair value through profit or loss should be increased by approximately HK$143,059,000 at 31 December 2009, with a corresponding increase in the Group's loss for the year ended 31 December 2009.

(f) Summary of effects of restatements due to correction of prior year errors and change in accounting policies

The following is a summary of effects of restatements due to correction of prior year errors and change in accounting policies on:

I. the Group's consolidated income statement for the year ended 31 December 2009;

II. the Group's consolidated statement of comprehensive income for the year ended 31 December 2009;

III. the Group's consolidated statement of financial position as at 31 December 2009;

IV. the Group's consolidated statement of financial position as at 1 January 2009; and

V. the Company's statement of financial position as at 31 December 2009.

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES *(Continued)*

(f) Summary of effects of restatements due to correction of prior year errors and change in accounting policies *(Continued)*

I. Effect of error corrections on the Group's consolidated income statement for the year ended 31 December 2009

	As previously reported	*Note 3(a)*	*Note 3(b)*	*Note 3(c)*	*Note 3(d)*	*Note 3(e)*	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	121,556	–	–	–	–	–	121,556
Cost of sales	(90,905)	2,001	–	–	(627)	–	(89,531)
Gross profit	30,651	2,001	–	–	(627)	–	32,025
Other income	93,440	–	–	–	–	(89,876)	3,564
Selling and distribution costs	(15,814)	–	–	1,260	–	–	(14,554)
Administrative expenses	(34,432)	–	1,458	–	–	–	(32,974)
Other losses	(113,096)	–	–	–	–	(53,183)	(166,279)
Operating loss	(39,251)	2,001	1,458	1,260	(627)	(143,059)	(178,218)
Finance costs	(23,060)	–	–	–	–	–	(23,060)
Share of loss of a jointly controlled entity	(366)	–	–	–	–	–	(366)
Loss before income tax	(62,677)	2,001	1,458	1,260	(627)	(143,059)	(201,644)
Income tax expense	(1,988)	–	–	–	–	–	(1,988)
Loss for the year	(64,665)	2,001	1,458	1,260	(627)	(143,059)	(203,632)
Loss attributable to:							
– equity holders of the Company	(64,347)	2,001	1,458	1,260	(627)	(143,059)	(203,314)
– non-controlling interests	(318)	–	–	–	–	–	(318)
	(64,665)	2,001	1,458	1,260	(627)	(143,059)	(203,632)
Loss per share for loss attributable to the equity holders of the Company (expressed in HK cents per share)							
– basic and diluted	(1.55)	0.05	0.04	0.03	(0.02)	(3.45)	(4.90)

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES *(Continued)*

(f) Summary of effects of restatements due to correction of prior year errors and change in accounting policies *(Continued)*

II. Effect of error corrections on the Group's consolidated statement of comprehensive income for the year ended 31 December 2009

	As previously reported	*Note 3(a)*	*Note 3(b)*	*Note 3(c)*	*Note 3(d)*	*Note 3(e)*	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Loss for the year	(64,665)	2,001	1,458	1,260	(627)	(143,059)	(203,632)
Exchange difference arising from translation of foreign operations	143	–	–	–	–	–	143
Surplus on revaluation of properties	2,615	–	–	–	–	–	2,615
Deferred tax arising on revaluation of properties	220	–	–	–	–	–	220
Total comprehensive loss for the year	(61,687)	2,001	1,458	1,260	(627)	(143,059)	(200,654)
Total comprehensive loss for the year attributable to:							
– equity holders of the Company	(61,369)	2,001	1,458	1,260	(627)	(143,059)	(200,336)
– non-controlling interests	(318)	–	–	–	–	–	(318)
	(61,687)	2,001	1,458	1,260	(627)	(143,059)	(200,654)

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES *(Continued)*

(f) Summary of effects of restatements due to correction of prior year errors and change in accounting policies *(Continued)*

III. Effect of error corrections and change in accounting policies on the Group's consolidated statement of financial position as at 31 December 2009

	As previously reported HK$'000	***Note 2(a)*** HK$'000	***Note 3(a)*** HK$'000	***Note 3(b)*** HK$'000	***Note 3(c)*** HK$'000	***Note 3(d)*** HK$'000	***Note 3(e)*** HK$'000	**As restated** HK$'000
Non-current assets								
Property, plant and equipment	66,978	–	2,001	617	–	–	–	69,596
Other non-current assets	722,626	–	–	–	–	–	–	722,626
	789,604	–	2,001	617	–	–	–	792,222
Current assets								
Inventories	6,106	–	–	–	–	8,169	–	14,275
Other current assets	90,652	–	–	–	–	–	–	90,652
	96,758	–	–	–	–	8,169	–	104,927
Total assets	886,362	–	2,001	617	–	8,169	–	897,149
Current liabilities								
Accruals and other payables	(27,304)	–	–	841	(1,886)	–	–	(28,349)
Borrowings	(38,285)	(4,609)	–	–	–	–	–	(42,894)
Other current liabilities	(13,685)	–	–	–	–	–	–	(13,685)
	(79,274)	(4,609)	–	841	(1,886)	–	–	(84,928)
Net current assets	17,484	(4,609)	–	841	(1,886)	8,169	–	19,999
Total assets less current liabilities	807,088	(4,609)	2,001	1,458	(1,886)	8,169	–	812,221
Non-current liabilities								
Borrowings	(4,609)	4,609	–	–	–	–	–	–
Deferred tax liabilities	(168,301)	–	–	–	–	–	–	(168,301)
Financial liabilities at fair value through profit or loss	(302,741)	–	–	–	–	–	(143,059)	(445,800)
	(475,651)	4,609	–	–	–	–	(143,059)	(614,101)
Net assets	331,437	–	2,001	1,458	(1,886)	8,169	(143,059)	198,120
Equity								
Share capital	88,546	–	–	–	–	–	–	88,546
Reserves	241,258	–	2,001	1,458	(1,886)	8,169	(143,059)	107,941
Non-controlling interests	1,633	–	–	–	–	–	–	1,633
Total equity	331,437	–	2,001	1,458	(1,886)	8,169	(143,059)	198,120

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES *(Continued)*

(f) Summary of effects of restatements due to correction of prior year errors and change in accounting policies *(Continued)*

IV. Effect of error corrections and change in accounting policies on the Group's consolidated statement of financial position as at 1 January 2009

	As previously reported HK$'000	*Note 2(a)* HK$'000	*Note 3(c)* HK$'000	*Note 3(d)* HK$'000	As restated HK$'000
Non-current assets	786,711	–	–	–	786,711
Current assets					
Inventories	9,329	–	–	8,796	18,125
Other current assets	80,724	–	–	–	80,724
	90,053	–	–	8,796	98,849
Total assets	876,764	–	–	8,796	885,560
Current liabilities					
Accruals and other payables	(21,585)	–	(3,146)	–	(24,731)
Borrowings	(38,884)	(763)	–	–	(39,647)
Other current liabilities	(107,038)	–	–	–	(107,038)
	(167,507)	(763)	(3,146)	–	(171,416)
Net current liabilities	(77,454)	(763)	(3,146)	8,796	(72,567)
Total assets less current liabilities	709,257	(763)	(3,146)	8,796	714,144
Non-current liabilities					
Borrowings	(18,376)	763	–	–	(17,613)
Deferred tax liabilities	(168,521)	–	–	–	(168,521)
Convertible notes	(234,128)	–	–	–	(234,128)
	(421,025)	763	–	–	(420,262)
Net assets	288,232	–	(3,146)	8,796	293,882
Equity					
Share capital	82,315	–	–	–	82,315
Reserves	203,966	–	(3,146)	8,796	209,616
Non-controlling interests	1,951	–	–	–	1,951
Total equity	288,232	–	(3,146)	8,796	293,882

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR YEAR ERRORS AND CHANGE IN ACCOUNTING POLICIES *(Continued)*

(f) Summary of effects of restatements due to correction of prior year errors and change in accounting policies *(Continued)*

V. Effect of error corrections on the Company's statement of financial position as at 31 December 2009

	As previously reported HK$'000	***Note 3(e)*** HK$'000	**As restated** HK$'000
Total assets less current liabilities	634,178	–	634,178
Non-current liabilities			
Financial liabilities at fair value through profit or loss	(302,741)	(143,059)	(445,800)
	(302,741)	(143,059)	(445,800)
Net assets	331,437	(143,059)	188,378
Equity			
Share capital	88,546	–	88,546
Reserves	242,891	(143,059)	99,832
Total equity	331,437	(143,059)	188,378

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings, investment properties, derivative financial instruments and financial liabilities at fair value through profit or loss which are carried at their fair values. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgement in the process of applying the Group's accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the consolidated financial statements. The significant accounting policies applied in the preparation of these financial statements are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation

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

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

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

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

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combination and goodwill

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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

(d) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entities *(Continued)*

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

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

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

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

(e) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

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

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

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

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

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

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

(f) Property, plant and equipment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(g) Investment properties

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

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

(h) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include cost of acquire 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.

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

1. the exploration right is current;
2. the Group plans and has sufficient fund to continue the explorations; and
3. the technical feasibility and commercial viability of extracting a mineral resource are not yet demonstrable.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Mining right

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

(j) Trademark

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

(k) Leases

(i) Operating leases

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

(ii) Finance leases

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

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

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

(l) Research expenditure

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

– an asset is created that can be identified;

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories

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

(n) Recognition and derecognition of financial instruments

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

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

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

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

(p) Trade and other receivables

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

(q) Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial liabilities and equity instruments

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

(i) Borrowings

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

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

(ii) Convertible notes

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

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

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

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

(iv) Trade and other payables

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

(v) Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

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

(i) Sales of goods

(a) Toys and gifts

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

(b) Coal

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

(ii) Rental income

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

(iii) Interest income

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

(t) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) 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.

(u) Share-based payments

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

(v) Borrowing costs

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

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

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

(w) Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Taxation *(Continued)*

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

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

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

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

(x) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Impairment of assets

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

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

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

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

(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 reporting period

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

(ab) Segment reporting

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Recoverability of exploration and evaluation assets

The directors are satisfied with the recoverability of exploration and evaluation assets with carrying value of approximately HK$750,843,000 (2009: HK$711,889,000) as at 31 December 2010 by reference to certain internal and external factors as applicable to the relevant CGU. For the exploration and evaluation assets, the Group has considered the following indicators to determine if it was required to assess the impairment of the carrying value of these assets as at 31 December 2010.

(i) There was no significant change that had taken place since the acquisition or is expected to take place in the near future, that would create an adverse effect in the technological market, economic or legal environments in which the Group operates;

(ii) There was no significant increase in market interest rates which are likely to affect the discount rate used in calculating an asset's value in use and would decrease the asset's recoverable amount materially;

(iii) The carrying amount of the net assets of the Group was not more than the Group's market capitalisation;

(iv) Exploration activities have been conducted as planned and there was no significant obsolescence or physical damage to the exploration and evaluation assets; and

(v) There was no evidence from internal reports which indicates that the economic performance of the exploration and evaluation assets is, or will be, worse than expected.

(b) Fair values of investment properties and leasehold land and buildings

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

(c) Fund availability

In order to fund the daily operation and the future expansion of the coal mining business of the Group, significant amounts of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. The directors consider that such funding for the future operation and expansion will be available as and when required.

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

(d) Share-based payment expenses

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

(e) Net realisable value of inventories

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

(f) Impairment loss for bad and doubtful debts

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

(g) Income and deferred taxes

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

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

(h) Property, plant and equipment and depreciation

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

(i) Fair value of derivatives and other financial instruments

As disclosed in notes 28 and 30 to the consolidated financial statements, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

Included in the bank and cash balances of the Group is an amount of approximately HK$15,936,000 as at 31 December 2010 (2009: HK$14,919,000) 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.

At 31 December 2010, if Renminbi had strengthened/weakened by 5% (2009: 5%) against Hong Kong dollars with all other variables held constant, pre-tax profit for the year would have been approximately HK$797,000 higher/lower (2009: HK$746,000) mainly as a result of foreign exchange gains/losses on translation of cash and cash equivalents, trade receivables, trade payables and borrowings denominated in non-functional currency of the relevant group companies.

(b) Price risk

The Group is exposed to equity price change of the Company's share as the Group's financial liabilities at fair value through profit or loss (note 30) is valued based on the market price of the Company's share at the end of each reporting period.

At 31 December 2010, if equity price of the Company's share had increased/decreased by 5% with all other variable held constant, consolidated profit after tax for the year would have been approximately HK$12,302,000 (2009: HK$22,348,000) lower/higher as a result of fair value losses/gains on financial liabilities at fair value through profit or loss.

(c) Credit risk

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

At 31 December 2010, the Group has certain concentration of credit risk as 58% (2009: 27%) and 69% (2009: 82%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2010 respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

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

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

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

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

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

	Total contractual undiscounted cash flow HK$'000	**Less than 1 year or on demand** HK$'000	**Between 1 to 2 years** HK$'000	**Between 2 to 5 years** HK$'000	**Over 5 years** HK$'000
Group					
At 31 December 2010					
Trade payables	17,893	17,893	–	–	–
Accruals and other payables	20,015	20,015	–	–	–
Borrowings	38,300	38,300	–	–	–
Financial liabilities at fair value through profit or loss	245,285	–	–	–	245,285
At 31 December 2009					
Trade payables	12,896	12,896	–	–	–
Accruals and other payables (restated)	28,349	28,349	–	–	–
Borrowings	42,894	42,894	–	–	–
Financial liabilities at fair value through profit or loss (restated)	445,800	–	–	–	445,800
Company					
At 31 December 2010					
Accruals and other payables	5,969	5,969	–	–	–
Due to subsidiaries	60,000	60,000	–	–	–
Financial liabilities at fair value through profit or loss	245,285	–	–	–	245,285
At 31 December 2009					
Accruals and other payables	3,474	3,474	–	–	–
Borrowings	2,000	2,000	–	–	–
Due to subsidiaries	63,036	63,036	–	–	–
Financial liabilities at fair value through profit or loss (restated)	445,800	–	–	–	445,800

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Interest rate risk

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

(f) Fair values estimation

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

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

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010:

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

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(f) Fair values estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009:

	Fair value measurement using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Financial assets at fair value through profit or loss	286	–	–	286
Liabilities				
Financial liabilities at fair value through profit or loss (restated)	–	445,800	–	445,800

(g) Capital risk management

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

The Group managed the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debts. No changes had been made in the objectives, policies and processes during the years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity. The Company's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2010 was 6.16% (2009: 1.12% as restated).

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

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2010 HK$'000	2009 HK$'000
Turnover		
Sales of goods	**186,095**	121,556
Other income		
Fair value gain on investment properties *(note 15)*	**4,671**	158
Interest income	**26**	218
Rental income *(note 15)*	**205**	156
Sale of moulds	**585**	1,716
Others	**1,189**	1,316
	6,676	3,564

Segment information

The Group has two reportable segments as follows:

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

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

Segment results do not include (gain)/loss on change in fair value and derecognition of convertible notes (note 10), corporate finance costs and other corporate income and expenses. Segment assets do not include property, plant and equipment, bank and cash balances and prepayments, deposits and other receivables at corporate level. Segment liabilities do not include financial liabilities at fair value through profit or loss, borrowings, and accruals and other payables at corporate level.

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

Segment information *(Continued)*

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

	Exploration and mining		Toys and gift items		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)		(Restated)
Year ended 31 December						
Revenue from external customers	**11,126**	421	**174,969**	121,135	**186,095**	121,556
Segment results	**(20,185)**	(9,999)	**(5,100)**	(6,840)	**(25,285)**	(16,839)
Depreciation and amortisation	**(2,343)**	(206)	**(8,458)**	(6,139)	**(10,801)**	(6,345)
Interest income	**17**	11	**2**	207	**19**	218
Interest expenses	**(5,509)**	(4,317)	**(1,472)**	(644)	**(6,981)**	(4,961)
Share of profit/(loss) of a jointly controlled entity	**–**	–	**46**	(366)	**46**	(366)
Income tax expense	**–**	–	**(1,344)**	(1,988)	**(1,344)**	(1,988)
Write-back of/(provision for) impairment of amount due from a jointly controlled entity	**–**	–	**160**	(1,857)	**160**	(1,857)
Interest in a jointly controlled entity	**–**	–	**1,423**	1,377	**1,423**	1,377
Additions to segment non-current assets	**18,598**	3,104	**10,978**	6,399	**29,576**	9,503
At 31 December						
Segment assets	**795,704**	744,559	**133,905**	92,693	**929,609**	837,252
Segment liabilities	**(178,996)**	(205,323)	**(70,068)**	(42,432)	**(249,064)**	(247,755)

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

Segment information *(Continued)*

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

	2010 HK$'000	2009 HK$'000 (Restated)
Reconciliation of segment results:		
Total loss of reportable segments	**(25,285)**	(16,839)
Unallocated amounts:		
(Gain)/loss on change in fair value and derecognition of convertible notes	**51,331**	(163,262)
Corporate finance costs	**(123)**	(18,099)
Other corporate income and expenses	**(20,952)**	(5,432)
Profit/(loss) for the year	**4,971**	(203,632)
Reconciliation of segment assets:		
Total assets of reportable segments	**929,609**	837,252
Unallocated corporate assets		
Property, plant and equipment	**679**	–
Bank and cash balances	**20,372**	59,406
Prepayments, deposits and other receivables	**492**	491
	21,543	59,897
Total assets	**951,152**	897,149

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

Segment information *(Continued)*

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

	2010 HK$'000	2009 HK$'000 (Restated)
Reconciliation of segment liabilities:		
Total liabilities of reportable segments	**249,064**	247,755
Unallocated corporate liabilities		
Financial liabilities at fair value through profit or loss	**245,285**	445,800
Borrowings	**–**	2,000
Accruals and other payables	**5,969**	3,474
	251,254	451,274
Total liabilities	**500,318**	699,029

(c) Geographical information:

	Revenue	
	2010 HK$'000	2009 HK$'000
The PRC (including Hong Kong)	**13,326**	4,277
North America[1]	**146,468**	91,069
European Union[2]	**19,753**	18,634
Others[3]	**6,548**	7,576
	186,095	121,556

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

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

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

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

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

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

Segment information *(Continued)*

(d) **Analysis of revenue by category:**

	2010 HK$'000	2009 HK$'000
Sales of toys and gifts items	174,969	121,135
Sales of coal items	11,126	421
	186,095	121,556

8. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest expenses on:		
Bank loans wholly repayable within 5 years	1,472	6,808
Liability component of convertible notes wholly repayable within 5 years *(note 28)*	–	11,935
Other loans wholly repayable within 5 years	5,509	4,317
Trust receipt loans	123	–
	7,104	23,060

9. INCOME TAX EXPENSE

Hong Kong profits tax is provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2010 **HK$'000**	2009 HK$'000
Current tax:		
Hong Kong Profits Tax		
Provision for the year	**269**	82
(Over)/under-provision for prior years	**(24)**	577
	245	659
The PRC		
Provision for the year	**713**	1,079
Under-provision for prior year	**–**	250
	713	1,329
Total current tax	**958**	1,988
Deferred tax *(note 31)*	**386**	–
Income tax expense	**1,344**	1,988

9. INCOME TAX EXPENSE *(Continued)*

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

	2010	2009
	HK$'000	HK$'000
		(Restated)
Profit/(loss) before tax	**6,315**	(201,644)
Tax at the applicable tax of 16.5% (2009: 16.5%)	**1,042**	(33,271)
Tax effect of income that is not taxable	**(8,514)**	(14,921)
Tax effect of expenses that are not deductible	**8,466**	49,327
Tax effect of timing difference previously not recognised	**(872)**	112
Tax effect of utilisation of tax losses not previously recognised	**(991)**	(106)
Tax effect of unused tax losses not recognised	**2,898**	800
(Over)/under-provision of taxation charges	**(24)**	827
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(661)**	(780)
Income tax expense	**1,344**	1,988

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

	2010			2009		
	Amount before tax	**Tax**	**Amount after tax**	Amount before tax	Tax	Amount after tax
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Exchange differences on translating foreign operations	**17,834**	**–**	**17,834**	143	–	143
Surplus on revaluation of properties	**15,907**	**(2,861)**	**13,046**	2,615	220	2,835
Other comprehensive income	**33,741**	**(2,861)**	**30,880**	2,758	220	2,978

10. PROFIT/(LOSS) FOR THE YEAR

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

	2010 HK$'000	2009 HK$'000 (Restated)
Amortisation of other intangible assets	**12**	12
Auditor's remuneration	**2,800**	1,000
(Write-back of)/provision for impairment of amount due from a jointly controlled entity* *(note 20)*	**(160)**	1,857
Provision for impairment of trade receivable	**60**	–
Cost of inventories sold *(note (a))*	**146,642**	89,531
Depreciation of property, plant and equipment *(note 13)*	**10,915**	6,235
Amortisation of prepaid land lease payments *(note 14)*	**145**	98
Fair value loss on financial assets at fair value through profit or loss* *(note 24)*	**286**	–
Write-off and loss on disposals of property, plant and equipment*	**3,269**	–
Minimum lease payments under operating leases in respect of leasehold land and buildings	**3,635**	600
Net foreign exchange (gain)/loss*	**(2,752)**	555
Research and development expenditures *(note (b))*	**926**	607
Provision for inventory obsolescence	**449**	149
Staff costs (excluding directors' remuneration *(note 12)*)		
Salaries, bonus and allowance	**25,991**	20,304
Retirement benefits scheme contributions	**2,257**	2,588
Share-based payment expenses	**698**	428
	28,946	23,320
(Gain)/loss on change in fair value and derecognition of convertible notes*		
Fair value gain on derivative component of CN1 *(note 28)*	**–**	(979)
Fair value (gain)/loss on Altered CN1 and CN2 and gain on derecognition of CN1 *(note 30)*	**(51,331)**	164,241
	(51,331)	163,262

* *Included in other gain/(losses)*

Note:

(a) *Cost of inventories sold included approximately HK$10,573,000 (2009: HK$11,639,000), HK$9,032,000 (2009: HK$4,842,000) and HK$449,000 (2009: HK$149,000) relating to staff costs, depreciation and provision for inventory obsolescence respectively, which are included in the respective amounts disclosed separately above for each of these types of expenses for the year.*

(b) *Research and development expenditures included approximately HK$677,000 (2009: HK$540,000) relating to staff costs which are also included in the total amount of staff costs disclosed separately above for the year.*

11. EARNINGS/(LOSS) PER SHARE

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

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

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

	2010 **HK$'000**	2009 HK$'000 (Restated)
Profit/(loss) attributable to the equity holders of the Company		
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	**6,313**	(203,314)
Less: fair value gain on change in fair value of financial liabilities at fair value through profit or loss	**(51,331)**	–
Adjusted loss for the purpose of calculating diluted loss per share	**(45,018)**	(203,314)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**4,789,103,515**	4,145,795,645
Effect of dilutive potential ordinary shares arising from outstanding share options and financial liabilities at fair value though profit or loss	**975,955,974**	N/A
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**5,765,059,489**	4,145,795,645

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

For the year ended 31 December 2009, the Group has incurred a loss and the conversion of all potential ordinary shares arising from the outstanding share option (granted in 2006, 2007 and 2009), financial liabilities at fair value through profit or loss and non–listed warrants would have an anti-dilutive effect on the loss per share. Accordingly, the weighted average number of share was not adjusted to compute the diluted loss per share.

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

For the year ended 31 December 2010

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

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

(a) Directors' remuneration *(Continued)*

For the year ended 31 December 2009

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Hui Kee Fung	–	1,885	–	174	2,059
Mr. Yu Won Kong, Dennis (appointed on 22 October 2009)	–	264	–	1	265
Mr. Guo Tianjue (appointed on 22 October 2009)	–	265	–	–	265
Mr. Lam Kit Sun (appointed on 27 October 2009	–	119	–	1	120
Mr. Hui Ki Yau (resigned on 22 October 2009)	–	1,354	–	125	1,479
Ms. Hui Hung Tan, Teresa (resigned on 22 October 2009)	–	650	–	60	710
Independent non-executive directors					
Mr. Lam Siu Lun, Simon (appointed on 22 October 2009)	23	–	88	–	111
Mr. Zhang Xianmin (appointed on 22 October 2009)	23	–	88	–	111
Mr. Mohammed Ibrahim Munshi (appointed on 27 October 2009)	22	–	88	–	110
Mr. Peng Guanghui (resigned on 11 January 2010)	50	–	–	–	50
Mr. Kung King Ching, Conrad (resigned on 22 October 2009)	50	–	–	–	50
Mr. Tang Rongzu (resigned on 22 October 2009)	50	–	–	–	50
	218	4,537	264	361	5,380

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2009: Nil).

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

(b) Five highest paid individuals' remuneration

The five highest paid individuals during the year included three (2009: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2009: two) highest paid individuals are as follows:

	2010 **HK$'000**	2009 HK$'000
Salaries, allowances and benefits in kind	**2,405**	1,460
Share-based payment	**579**	–
Retirement benefits scheme contributions	**162**	102
	3,146	1,562

The emoluments fell within the following band:

	Number of individuals	
	2010 **HK$'000**	2009 HK$'000
HK$Nil – HK$1,000,000	**–**	2
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	–
	2	2

During the year, no remuneration was paid by the Group to any of the directors or the highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2009: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

	Group								
	Leasehold land and buildings HK$'000	**Mining structure** HK$'000 (Restated)	**Leasehold improve-ments** HK$'000	**Plant and machinery** HK$'000	**Moulds** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Construction in progress** HK$'000	**Total** HK$'000 (Restated)
Cost or valuation									
At 1 January 2009	28,875	17,243	2,094	14,648	30,313	4,753	5,060	–	102,986
Additions, as restated *(note 3)*	–	2,618	–	662	5,700	97	426	–	9,503
Adjustment on revaluation to equity	1,640	–	–	–	–	–	–	–	1,640
At 31 December 2009 as restated	30,515	19,861	2,094	15,310	36,013	4,850	5,486	–	114,129
Additions	–	–	950	5,976	5,287	967	849	2,263	16,292
Adjustment on revaluation to equity	14,788	–	–	–	–	–	–	–	14,788
Transfer to inventory	–	–	–	(601)	–	–	–	–	(601)
Disposal	–	(2,669)	–	(4,101)	(3,752)	(272)	(290)	–	(11,084)
Exchange difference	630	640	–	499	3,644	565	(860)	59	5,177
At 31 December 2010	45,933	17,832	3,044	17,083	41,192	6,110	5,185	2,322	138,701
Accumulated depreciation and impairment									
At 1 January 2009	–	–	1,990	9,147	20,561	3,928	3,592	–	39,218
Charge for the year	968	–	43	452	4,265	246	261	–	6,235
Exchange difference	7	–	–	4	41	1	2	–	55
Adjustment on revaluation to equity	(975)	–	–	–	–	–	–	–	(975)
At 31 December 2009	–	–	2,033	9,603	24,867	4,175	3,855	–	44,533
Charge for the year	1,119	1,517	301	1,942	4,954	635	447	–	10,915
Adjustment on revaluation to equity	(1,119)	–	–	–	–	–	–	–	(1,119)
Disposal	–	–	–	(1,935)	(1,980)	(375)	(99)	–	(4,389)
Exchange difference	–	39	(2)	1,047	3,006	169	(1,082)	–	3,177
At 31 December 2010	–	1,556	2,332	10,657	30,847	4,604	3,121	–	53,117
Carrying amount									
At 31 December 2010	45,933	16,276	712	6,426	10,345	1,506	2,064	2,322	85,584
At 31 December 2009, as restated	30,515	19,861	61	5,707	11,146	675	1,631	–	69,596

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

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

	Group								
	Leasehold land and buildings HK$'000	Mining structure HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2010									
At cost	–	17,832	3,044	17,083	41,192	6,110	5,185	2,322	92,768
At valuation	45,933	–	–	–	–	–	–	–	45,933
	45,933	17,832	3,044	17,083	41,192	6,110	5,185	2,322	138,701
31 December 2009									
At cost	–	19,861	2,094	15,310	36,013	4,850	5,486	–	83,614
At valuation	30,515	–	–	–	–	–	–	–	30,515
	30,515	19,861	2,094	15,310	36,013	4,850	5,486	–	114,129

The Company acquired additional leasehold improvements at the cost of approximately HK$950,000 and approximately HK$271,000 of depreciation is charged to income statement during the year ended 31 December 2010. At 31 December 2010, the carrying amount of leasehold improvements of the Company is approximately HK$679,000.

The Company did not hold any property, plant and equipment for the year ended 31 December 2009.

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

	Group	
	2010 HK$'000	2009 HK$'000
Held under medium term leases in Hong Kong *(note (a))*	**26,510**	13,280
Held under medium term leases in the PRC *(note (b))*	**19,423**	17,235
	45,933	30,515

Notes:

(a) The Group's medium term leasehold land and buildings in Hong Kong were revalued as at 31 December 2010 and 2009 by Ascent Partners Transaction Service Limited ("Ascent Partners") and Castores Magi Asia Limited ("Castores") respectively, independent firms of professional valuers on market value basis.

(b) The Group's medium term leasehold land and buildings in the PRC were revalued as at 31 December 2010 and 2009 by Ascent Partners and Castores respectively on depreciation replacement cost method.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amount as at 31 December 2010 would have been HK$19,303,000 (2009: HK$20,209,000).

At 31 December 2010, the Group's leasehold land and buildings with an aggregate carrying amount of HK$42,900,000 (2009: HK$28,000,000) were pledged to secure banking facilities granted to the Group (note 27).

14. PREPAID LAND LEASE PAYMENTS

	Group HK$'000
Cost	
At 1 January 2009 and 31 December 2009	5,334
At 1 January 2010	5,334
Exchange difference	182
At 31 December 2010	5,516
Accumulated amortisation	
At 1 January 2009	494
Charge for the year	98
Exchange difference	1
At 31 December 2009 and 1 January 2010	593
Charge for the year	145
Exchange difference	24
At 31 December 2010	762
Carrying amount	
At 31 December 2010	4,754
At 31 December 2009	4,741

Amortisation of prepaid land lease payments has been included in administrative expenses.

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

	Group	
	2010 HK$'000	2009 HK$'000
Leases of between 10 to 50 years in the PRC	**4,754**	4,741

At 31 December 2010, the Group's prepaid land lease payments with an aggregate carrying amount of HK$4,754,000 (2009: HK$4,741,000) were pledged to secure banking facilities granted to the Group (note 27).

At 31 December 2010, prepaid land lease payment of HK$4,639,000 (2009: HK$4,643,000) were classified as non-current assets while HK$115,000 (2009: HK$98,000) were classified as current assets and were grouped under balance sheet line item of "Prepayment, deposits and other receivables".

15. INVESTMENT PROPERTIES

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**3,600**	3,440
Exchange difference	**229**	2
Fair value gain *(note 7)*	**4,671**	158
At 31 December	**8,500**	3,600

The Group's investment properties are analysed as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Leases of between 10 to 50 years in Hong Kong	**500**	400
Leases of between 10 to 50 years in the PRC	**8,000**	3,200
	8,500	3,600

The Group's investment properties were revalued as at 31 December 2010 and 2009 by Ascent Partners and Castores respectively on market value basis.

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

Rental income derived from investment properties held for use under operating leases amounted to approximately HK$205,000 (2009: HK$156,000) for the year ended 31 December 2010 (note 7). There was no contingent rental recognised during the years ended 31 December 2010 and 2009.

At 31 December 2010, the Group's investment properties with an aggregate carrying amount of HK$8,000,000 (2009: Nil) were pledged to secure banking facilities granted to the Group (note 27).

16. GOODWILL

	Group HK$'000
Cost	
At 1 January 2009 and 31 December 2009	86,854
At 1 January 2010	86,854
Exchange difference	2,970
At 31 December 2010	89,824
Accumulated impairment loss	
At 1 January 2009 and 31 December 2009	86,854
At 1 January 2010	86,854
Exchange difference	2,970
At 31 December 2010	89,824
Carrying amount	
At 31 December 2010	–
At 31 December 2009	–

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

The carrying amounts of the goodwill arising from the acquisition of Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng") and Lucky Dragon Resources Limited and its subsidiary (collectively referred to as the "Lucky Dragon Group"), Tongliao City Heng Yuan Mining Company Limited ("Heng Yuan"), together with the carrying amounts of exploration and evaluation assets (note 17) are allocated to the exploration and mining CGUs which are directly attributable to the potential mining rights of Guerbanhada Coal Mine ("GCM") and Bayanshan Coal Mine ("BCF"), respectively. The directors considered that the goodwill arising from the acquisition of Huanghuashan Coal Mine ("HCM") was immaterial since the potential mining value (in terms of coal resources) 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 CGUs which are estimated at the higher of the fair value less cost to sell by reference to the market value at each balance sheet date. Based on these assessments, the carrying amount of goodwill had been fully provided for as at 31 December 2008.

17. EXPLORATION AND EVALUATION ASSETS

	Group HK$'000
Cost	
At 1 January 2009 and 31 December 2009	1,250,250
At 1 January 2010	1,250,250
Additions	14,234
Exchange difference	43,131
At 31 December 2010	1,307,615
Accumulated impairment loss	
At 1 January 2009 and 31 December 2009	538,361
At 1 January 2010	538,361
Exchange difference	18,411
At 31 December 2010	556,772
Carrying amount	
At 31 December 2010	750,843
At 31 December 2009	711,889

17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

The exploration and evaluation assets are attributable to GCM and BCF. At 31 December 2010, the carrying amount is attributable to GCM of approximately HK$238,000,000 (2009: HK$230,129,000) and BCF of approximately HK$512,843,000 (2009: HK$481,760,000).

During the year ended 31 December 2007, the Group acquired Bright Assets Investments Limited and its subsidiaries, of which Mingrunfeng holds an exploration right certificate in GCM located in Inner Mongolia Autonomous Region of the PRC. The master planning (總體規劃) of GCM has been agreed by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會) in April 2010. In addition, the master planning has been submitted by Inner Mongolia Autonomous Region Development and Reform Commission to National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and National Energy Commission of the PRC (中華人民共和國國家能源局) for their approvals on 22 June 2010. The licence period of the exploration right of GCM is from 22 September 2009 to 22 September 2011. In order to expedite the application process of the mining licence of GCM, the Group has been closely following up the application in its best endeavour. Based on the assessment by the directors, the Company's management is very confident and determined to obtain the approval for the master planning of GCM from National Development and Reform Commission of the PRC and National Energy Commission of the PRC successfully during 2011.

During the year ended 31 December 2008, the Group acquired Lucky Dragon Group. Heng Yuan holds an exploration right certificate in BCF located in the Inner Mongolia Autonomous Region of the PRC. The exploration right certificate had an initial exploration period from 5 July 2008 to 4 July 2010 and was subsequently renewed to 4 July 2012, and subject to further renewal.

The Group has engaged technical consultants for the necessary exploration works and has been in the process to apply for the master planning for BCF.

Based on the consideration of the indicators in note 5(a), the directors concluded that an impairment test on the exploration and evaluation assets would not be necessary.

18. MINING RIGHT

	Group HK$'000
Cost	
At 1 January 2009 and 31 December 2009	35,493
At 1 January 2010	35,493
Exchange difference	1,214
At 31 December 2010	36,707
Accumulated amortisation and impairment loss	
At 1 January 2009 and 31 December 2009	35,493
At 1 January 2010	35,493
Exchange difference	1,214
At 31 December 2010	36,707
Carrying amount	
At 31 December 2010	–
At 31 December 2009	–

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

19. OTHER INTANGIBLE ASSET

	Group
	Trademark
	HK$'000
	(note a)
Cost	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	1,155
Accumulated amortisation	
At 1 January 2009	26
Amortisation for the year	12
At 31 December 2009 and 1 January 2010	38
Amortisation for the year	12
At 31 December 2010	50
Carrying amount	
At 31 December 2010	1,105
At 31 December 2009	1,117

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).

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group 2010 HK$'000	2009 HK$'000
Share of net assets *(note a)*	**1,423**	1,377

	Group 2010 HK$'000	2009 HK$'000
Amount due from a jointly controlled entity *(note c)*	**8,206**	2,450
Less: provision for impairment	**(1,697)**	(1,857)
Amount due from a jointly controlled entity, net.	**6,509**	593

The movements in provision for amount due from a jointly controlled entity is as follows:

	Group 2010 HK$'000	2009 HK$'000
1 January	**1,857**	–
Write-back of provision for impairment	**(160)**	–
Provision for impairment	**–**	1,857
31 December	**1,697**	1.857

Notes:

(a) *Details of the Group's jointly controlled entity at 31 December 2010 and 2009 are as follows:*

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

20. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Notes: (Continued)

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

	Group	
	2010	2009
	HK$'000	HK$'000
Share of the jointly controlled entity's assets and liabilities:		
Assets		
Non-current assets	**548**	433
Current assets	**7,399**	3,712
	7,947	4,145
Liabilities		
Current liabilities	**(6,524)**	(2,768)
Net assets	**1,423**	1,377
Share of the jointly controlled entity's results:		
Income	**14,320**	14,941
Expenses	**(14,274)**	(15,307)
Profit/(loss) after income tax	**46**	(366)

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

21. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted investments at cost	**1,001,828**	1,001,707
Due from subsidiaries	**265,310**	187,366
Less: Impairment losses	**(520,964)**	(546,282)
	746,174	642,791

The amounts due from subsidiaries under non-current assets are unsecured, interest-free and have no fixed terms of repayment. The amount due to subsidiaries under current liabilities are unsecured, interest-free and repayable on demand.

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries at 31 December 2010 are as follows:

Name	Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities
			Directly	Indirectly	
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	50,500 ordinary shares of US$1 each	100%	–	Investment holding
King Wish Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
Super Dragon Management Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
Better Sourcing Worldwide Limited	Hong Kong	100 ordinary shares of HK$1 each	–	51%	Trading of gift items and toys
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Trading of gift and toys
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%	Investment holding
Newgary Development Limited	Hong Kong	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%	Property holding
Toland International Limited	Hong Kong	4,200,000 ordinary shares of HK$1 each	–	70%	Trading of flags and garden products
福建奇嘉禮品玩具有限公司 (Fujian Kcare Giftoys Co., Ltd.*)	The PRC	RMB10,000,000	–	100%	Manufacture and trading of gifts and toys
福建嘉雄玩具有限公司 (Fujian Ka Hung Toys Co., Ltd.*)	The PRC	RMB10,000,000	–	100%	Manufacture and trading of gifts and toys
Inner Mongolia Mingrunfeng Energy Co., Ltd.	The PRC	RMB20,000,000	–	100%	Exploration and mining

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

* *For identification purpose.*

22. INVENTORIES

	Group		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)
Raw materials	**13,241**	12,291	13,889
Work in progress	**2,824**	3,391	3,473
Finished goods	**6,280**	2,202	4,223
	22,345	17,884	21,585
Less: Provision for obsolescence	**(4,058)**	(3,609)	(3,460)
	18,287	14,275	18,125

23. TRADE RECEIVABLES

	Group	
	2010 HK$'000	2009 HK$'000
Trade receivables	**14,037**	2,804
Less: provision for impairment	**(60)**	–
Trade receivables, net	**13,977**	2,804

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

23. TRADE RECEIVABLES *(Continued)*

The movements in provision for trade receivables are as follows.

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**–**	–
Provision for impairment	**60**	–
At 31 December	**60**	–

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

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**11,470**	2,683
31 days to 90 days	**2,201**	121
91 days to 180 days	**232**	–
181 days to 360 days	**47**	–
Over 360 days	**27**	–
	13,977	2,804

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

	Group	
	2010	2009
	HK$'000	HK$'000
US$	**13,744**	2,758
RMB	**233**	46
	13,977	2,804

23. TRADE RECEIVABLES *(Continued)*

At 31 December 2010, trade receivables of approximately HK$1,456,000 (2009: HK$1,050,000) 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:

	Group	
	2010	2009
	HK$'000	HK$'000
Within 90 days	**1,164**	1,050
91 days to 180 days	**221**	–
181 to 360 days	**44**	–
Over 360 days	**27**	–
	1,456	1,050

As of 31 December 2010, trade receivables of approximately HK$60,000 (2009: Nil) were impaired. The impaired receivables relate to a customer which is unlikely to be recoverd. The ageing analysis of these trade receivables based on due date is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
91 days to 180 days	**60**	–

As of 31 December 2010 and 2009, the fair value of the trade receivables approximate their carrying value.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	HK$'000	HK$'000
Equity securities listed in Hong Kong, at fair value	**–**	286
Market value of securities	**–**	286

Full provision for impairment has been made during the year as the directors considered that the investment is unlikely to be recovered.

25. BANK AND CASH BALANCES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**49,699**	82,713	**20,372**	59,406
Maximum exposure to credit risk	**49,519**	82,375	**20,368**	59,406

Bank and cash balances are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**26,029**	62,285	**20,370**	59,404
RMB	**15,936**	14,919	**–**	–
US$	**7,734**	5,509	**2**	2
	49,699	82,713	**20,372**	59,406

26. TRADE PAYABLES

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

	Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**7,198**	2,812
31 days to 90 days	**7,008**	3,231
91 days to 180 days	**2,675**	5,024
181 days to 360 days	**842**	1,329
Over 360 days	**170**	500
	17,893	12,896

26. TRADE PAYABLES *(Continued)*

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

	Group	
	2010	2009
	HK$'000	HK$'000
HK$	**454**	950
US$	**4,534**	781
RMB	**12,905**	11,165
	17,893	12,896

As of 31 December 2010 and 2009, the fair value of the trade payables approximate their carrying value.

27. BORROWINGS

	Group			Company	
	At 31 December 2010	At 31 December 2009	At 1 January 2009	**2010**	2009
	HK$'000	HK$'000 (Restated)	HK$'000 (Restated)	**HK$'000**	HK$'000
Bank loans	**26,021**	16,364	1,275	**–**	–
Trust receipt loans	**8,847**	–	2,524	**–**	–
Other loans	**3,432**	24,319	47,750	**–**	–
Due to a related company[#]	**–**	–	5,500	**–**	–
Due to shareholders	**–**	2,211	211	**–**	2,000
	38,300	42,894	57,260	**–**	2,000
Current					
Bank loans	**26,021**	16,364	1,275	**–**	–
Trust receipt loans	**8,847**	–	2,524	**–**	–
Other loans	**3,432**	24,319	30,137	**–**	–
Due to a related company[#]	**–**	–	5,500	**–**	–
Due to shareholders	**–**	2,211	211	**–**	2,000
	38,300	42,894	39,647	**–**	2,000

27. BORROWINGS *(Continued)*

	Group			Company	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000
Non-current					
Bank loans	**–**	–	–	**–**	–
Other loans	**–**	–	17,613	**–**	–
	–	–	17,613	**–**	–
Total borrowings	**38,300**	42,894	57,260	**–**	2,000
Secured *(notes (a)(i) and (a)(iii))*	**26,121**	16,364	1,275	**–**	–
Unsecured *(notes (a)(ii) and (a)(iii))*	**12,179**	26,530	55,985	**–**	2,000

\# *Two directors of the Company are also the directors of this related company.*

At 31 December 2010 and 2009, the borrowings were repayable as follows:

(a) Group

	Bank loans			Trust receipt loans			Other borrowings			Total		
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)
Within one year	**26,021**	16,364	1,275	**8,847**	–	2,524	**3,432**	26,530	35,848	**38,300**	42,894	39,647
Between one to two years	**–**	–	–	**–**	–	–	**–**	–	17,613	**–**	–	17,613
Wholly repayable within five years	**26,021**	16,364	1,275	**8,847**	–	2,524	**3,432**	26,530	53,461	**38,300**	42,894	57,260
Total borrowings	**26,021**	16,364	1,275	**8,847**	–	2,524	**3,432**	26,530	53,461	**38,300**	42,894	57,260

27. BORROWINGS *(Continued)*

(b) Company

	Other borrowings		Total	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	2,000	**–**	2,000
Wholly repayable within five years	**–**	2,000	**–**	2,000
Total Borrowings	**–**	2,000	**–**	2,000

Note:

(a) Facilities

At 31 December 2010, the Group's bank loans were secured by:

(i) charges over certain of the Group's leasehold land and buildings, prepaid land lease payments and investment properties (notes 13, 14 and 15);

(ii) joint and several corporate guarantee provided by the Company's subsidiaries; and

(iii) personal guarantee by a Company's director, Mr. Hui Kee Fung.

27. BORROWINGS *(Continued)*

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

	Group	
	At 31 December 2010	At 31 December 2009
Bank loans		
– Floating rate (2010: HK$4,609,000; 2009: HK$5,000,000)	**Prime rate**	Prime rate
– Floating rate (2010: HK$494,000; 2009: Nil)	**Prime rate**	N/A
– Fixed rate (2010: HK$5,876,000; 2009: HK$11,364,000)	**5.56%**	5.31%
– Fixed rate (2010: HK$15,042,000; 2009: Nil)	**5.10%–5.31%**	N/A
Trust receipt loans		
– Floating rate (2010: HK$8,254,000; 2009: Nil)	**LIBOR+2.25%**	N/A
– Floating rate (2010: HK$593,000; 2009: Nil)	**Prime rate**	N/A
Other loans		
– Fixed rates (2010: HK$3,432,000; 2009: HK$18,182,000)	**18%**	From 18% to 19.2%
– Floating rate (2010: Nil; 2009: HK$6,137,000)	**N/A**	N/A
Due to shareholders		
– Fixed rate (2010: Nil; 2009: HK$2,000,000)	**N/A**	11%
– The remaining amounts due to shareholders were interest-free (2010: Nil; 2009: HK$211,000)	**N/A**	Nil

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

	Group			Company	
	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000	At 1 January 2009 HK$'000	**2010 HK$'000**	2009 HK$'000
US$	**8,847**	–	–	**–**	–
HK$	**4,608**	7,000	33,298	**–**	2,000
RMB	**24,845**	35,894	23,962	**–**	–
	38,300	42,894	57,260	**–**	2,000

28. CONVERTIBLE NOTES

On 28 March 2008, the convertible notes of nominal value of HK$254,064,835 ("CN1") were issued as part of the consideration for an acquisition of subsidiaries. Pursuant to the terms of CN1, CN1 are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of CN1 and 28 March 2010. Any CN1 not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010. The fair value of CN1 was divided into a liability component and a derivative component.

During the year ended 31 December 2009, an interest expense of approximately HK$11,935,000 (note 8) on the liability component and a fair value gain of approximately HK$979,000 (note 10) on the derivative component were recognised.

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

On 2 October 2009, the Company and CN1 holders entered into a deed to alter certain terms of CN1. A summary of the salient points of the changes in terms is set out in note 30. Liability and derivative components of CN1 have been derecognised as a result of substantial changes in the terms of CN1.

29. PROMISSORY NOTES

During the year ended 31 December 2008, the promissory notes were issued as part of the consideration for an acquisition of subsidiaries. The promissory notes were unsecured, interest-fee and repayable on or before 28 September 2009 subject to the condition that the Company should have repaid the promissory notes to note holder once the Company had sufficient funds for repayment.

On 2 October 2009, principal amount of HK$60,000,000 of the promissory notes was repaid by the Company in cash. The remaining principal amount of approximately HK$35,416,000 of the promissory notes was satisfied by the subscription price of CN2 (note 30).

30. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

On 2 October 2009, the convertible notes of nominal value of approximately HK$35,416,000 ("CN2") were issued, and the subscription price payable by CN2 holders was satisfied by capitalisng the outstanding principal amount of the promissory notes of approximately HK$35,416,000 (note 29). The terms of CN2 are the same as Altered CN1.

The management has designated the entire Altered CN1 and the entire CN2 as "financial liabilities at fair value through profit or loss".

As a result of the derecognition of CN1 and the change in the fair value of Altered CN1 and CN2 since their dates of issuance, a net loss of approximately HK$164,241,000 was recognised during the year ended 31 December 2009 (note 10).

	Group and Company		
	Altered CN1	**CN2**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2010, as restated	391,260	54,540	445,800
Converted into ordinary shares of the Company during the year	(129,864)	(19,320)	(149,184)
Fair value gain *(note 10)*	(41,221)	(10,110)	(51,331)
At 31 December 2010	220,175	25,110	245,285

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

During the year ended 31 December 2010, 403,200,000 ordinary shares were issued upon the conversion of the convertible notes. Accordingly, the carrying value of Altered CN1 and CN2 was decreased by approximately HK$149,184,000.

During the year ended 31 December 2010, a fair value gain of approximately HK$51,331,000 was recognised for the change in fair value of the financial liabilities at fair value through profit or loss.

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

31. DEFERRED INCOME TAX

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

	Group	
	2010	2009
	HK$'000	HK$'000
Deferred tax assets to be recovered after more than 12 months	**280**	–
Deferred tax liabilities to be settled after more than 12 months	**(177,550)**	(168,301)
Deferred tax liabilities, net	**(177,270)**	(168,301)

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

	Group	
	2010	2009
	HK$'000	HK$'000
Beginning of the year	**(168,301)**	(168,521)
Charged to income statement	**(386)**	–
(Charged)/credited to equity	**(2,861)**	220
Exchange difference	**(5,722)**	–
End of the year	**(177,270)**	(168,301)

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

Deferred tax assets:

	Group Provision for amount due from a jointly controlled entity	
	2010	2009
	HK$'000	HK$'000
Beginning of the year	**–**	–
Credited to income statement	**280**	–
End of the year	**280**	–

31. DEFERRED INCOME TAX *(Continued)*

Deferred tax liabilities:

	Group			
	Accelerated tax depreciation	Revaluation surplus on investment properties and leasehold land and buildings	Exploration and evaluation assets	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	1,016	2,904	164,601	168,521
Credited to equity	–	(220)	–	(220)
At 31 December 2009	1,016	2,684	164,601	168,301
Charged to equity	–	2,861	–	2,861
Charged/(credited) to income statement	(1,016)	1,682	–	666
Exchange difference	–	93	5,629	5,722
At 31 December 2010	–	7,320	170,230	177,550

At 31 December 2010 the Group has unused tax losses of approximately HK$19,900,000 (2009: HK$8,340,000) available for offsetting against future profits of certain subsidiaries, of which losses amounting to approximately HK$17,562,000 is subject to further approval by relevant tax authorities. No deferred tax asset has been recognised due to the unpredictability of future taxable profit streams of these subsidiaries.

32. SHARE CAPITAL

		Number of shares		Ordinary share capital	
	Note	**2010**	2009	**2010**	2009
				HK$'000	HK$'000
Authorised:					
Ordinary shares of HK$0.02 each		**10,000,000,000**	10,000,000,000	**200,000**	200,000
Issued and fully paid:					
At beginning of year		**4,427,306,800**	4,115,759,800	**88,546**	82,315
Issue of shares on					
– Exercise of share options	*(note (a))*	**3,920,000**	11,547,000	**79**	231
– Conversion of convertibles notes	*(note (b))*	**403,200,000**	–	**8,064**	–
– On placement	*(note (c))*	**180,000,000**	300,000,000	**3,600**	6,000
At end of year		**5,014,426,800**	4,427,306,800	**100,289**	88,546

32. SHARE CAPITAL *(Continued)*

Notes:

(a) *During the year, the Company issued 3,920,000 (2009:11,547,000) (note 34) 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 (2009: HK$0.1016).*

The difference between the exercise price and par value of approximately HK$320,000 (2009: HK$942,000) was credited to the Company's share premium account. In addition, the portion of share-based payment reserve in relation to the share options exercised during the year of approximately HK$279,000 (2009: HK$821,000) was transferred to the Company's share premium account.

(b) *On 11 February 2010, 24 May 2010, 14 October 2010, the Company issued 100,800,000, 100,800,000 and 201,600,000 ordinary shares of HK$0.02 each in relation to the conversion of the convertible notes at the conversion price of HK$0.25 per share respectively (2009: Nil). The difference between the market price of the conversion shares on each of the above issue date and the par value of the issued ordinary shares amounted to approximately HK$141,120,000 in aggregate (2009: Nil) was credited to the Company's share premium account.*

(c) *On 22 October 2009, 9 November 2009 and 11 December 2009, the Company and a placing agent entered into several placing agreements in respect of the placements of 100,000,000, 100,000,000 and 100,000,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.281, HK$0.360 and HK$0.415 per share, respectively. The placements of 100,000,000, 100,000,000 and 100,000,000 ordinary shares were completed on 3 November 2009, 23 November 2009 and 24 December 2009 respectively and the premium on the issue of these shares, amounting to approximately HK$96,800,000 net of share issuance costs, was credited to the Company's share premium account for the year ended 31 December 2009.*

On 18 January 2010, the Company and a placing agent entered into a placing agreement in respect of the placement of 180,000,000 ordinary shares of HK$0.02 each to independent investors at a price of HK$0.339 per share. The placement of 180,000,000 ordinary shares was completed on 29 January 2010 and the premium on the issue of shares, net of share issuance costs, amounting to approximately HK$55,828,000 was credited to the Company's share premium account for the year ended 31 December 2010.

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

33. RESERVES

(a) Group

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

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Share-based payment reserve HK$'000	Non-listed warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	462,126	125,161	5,262	–	(386,632)	205,917
Total comprehensive income for the year, as restated	–	–	–	–	(204,726)	(204,726)
Issue of shares upon exercise of share options *(note 32(a))*	1,763	–	(821)	–	–	942
Issue of shares on placement *(note 32(c))*	96,800	–	–	–	–	96,800
Share issuance costs	(182)	–	–	–	–	(182)
Issue of non-listed warrants	–	–	–	409	–	409
Recognition of share-based payment *(note 34)*	–	–	692	–	–	692
Release on forfeiture of share options *(note 34)*	–	–	(20)	–	–	(20)
At 31 December 2009, as restated *(note 3(f))*	560,507	125,161	5,113	409	(591,358)	99,832
Total comprehensive income for the year	–	–	–	–	51,222	51,222
Issue of shares upon exercise of share options *(note 32(a))*	599	–	(279)	–	–	320
Issue of shares on placement *(note 32(c))*	55,828	–	–	–	–	55,828
Exercise of convertible notes to ordinary shares *(note 32(b))*	141,120	–	–	–	–	141,120
Recognition of share-based payment *(note 34)*	–	–	7,852	–	–	7,852
Release on forfeiture of non-listed warrants	–	–	–	(409)	409	–
Release on forfeiture of share options *(note 34)*	–	–	(218)	–	218	–
At 31 December 2010	758,054	125,161	12,468	–	(539,509)	356,174

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$51,222,000 (2009: loss attributable to equity holders of the Company of approximately HK$204,726,000, restated).

34. 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 Scheme became effective on 28 May 2002.

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

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

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

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(a) *(note (a))*	19 June 2006	53,120,000	HK$0.1016	1 January 2007 to 18 June 2016
2006(b) *(note (a))*	19 June 2006	67,840,000	HK$0.1016	1 January 2007 to 18 June 2016
2007 *(note (b))*	5 July 2007	3,300,000	HK$0.7400	1 July 2008 to 18 June 2016
2009(a) *(note (c))*	27 October 2009	9,000,000	HK$0.4000	27 October 2010 to 27 October 2012

34. SHARE-BASED PAYMENT *(Continued)*

Share option type	Date of grant	Options granted	Exercise price	Exercise period
2009(b) *(note (c))*	27 October 2009	9,000,000	HK$0.6000	27 October 2010 to 27 October 2012
2009(c) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2009 to 21 December 2010
2009(d) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2009 to 21 December 2012
2009(e) *(note (d))*	21 December 2009	3,000,000	HK$0.6000	21 December 2009 to 21 December 2012
2010(a) *(note (e))*	11 January 2010	34,000,000	HK$0.4000	11 January 2010 to 11 January 2012
2010(b) *(note (e))*	11 January 2010	34,000,000	HK$0.6000	11 January 2010 to 11 January 2012
Total		219,260,000		

Notes:

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

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

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

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

34. SHARE-BASED PAYMENT *(Continued)*

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

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

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

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

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

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

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

For the year ended 31 December 2010

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

34. SHARE-BASED PAYMENT *(Continued)*

For the year ended 31 December 2009

Grantee	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Employees	2006(a)	11,080,000	–	(5,600,000)	–	5,480,000	5,480,000	HK$0.1016
	2006(b)	50,359,600	–	(4,747,000)	(274,000)	45,338,600	45,338,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	2,200,000	HK$0.7400
	2009(a)	–	9,000,000	–	–	9,000,000	–	HK$0.4000
	2009(b)	–	9,000,000	–	–	9,000,000	–	HK$0.6000
	2009(c)	–	3,000,000	–	–	3,000,000	3,000,000	HK$0.4240
	2009(d)	–	3,000,000	–	–	3,000,000	–	HK$0.4240
	2009(e)	–	3,000,000	–	–	3,000,000	–	HK$0.6000
		64,739,600	27,000,000	(10,347,000)	(274,000)	81,118,600	56,018,600	
Consultant	2006(a)	1,200,000	–	(1,200,000)	–	–	–	HK$0.1016
		65,939,600	27,000,000	(11,547,000)	(274,000)	81,118,600	56,018,600	
Weighted average closing price		–	–	HK$0.4254	–	–	–	
Weighted average exercise price		HK$0.1335	HK$0.4942	HK$0.1016	HK$0.1016	HK$0.2583	HK$0.1439	

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

34. SHARE-BASED PAYMENT *(Continued)*

	Date of grant 27 October 2009	
	2009(a)	**2009(b)**
Expected volatility	59.36%	67.71%
Expected life	2	2.5
Risk-free interest rate	0.380% to 0.811%	0.597% to 1.027%
Expected dividend yield	Nil	Nil

		Date of grant 21 December 2009	
	2009(c)	**2009(d)**	**2009(e)**
Expected volatility	70.78%	61.32%	68.94%
Expected life	0.5	2	2.5
Risk-free interest rate	0.080% to 0.131%	0.304% to 0.714%	0.486% to 0.939%
Expected dividend yield	Nil	Nil	Nil

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

The Group recognised approximately HK$7,852,000 (2009: HK$692,000) share-based payment expenses in the consolidated income statement for the year ended 31 December 2010, of which the amount has been included as staff costs, and the corresponding amount has been credited to share-based payment reserve.

If the options remain unexercised after the exercise period, the options expire. Options are forfeited if the employee leaves the Group. For the year ended 31 December 2010, the total of forfeited options is approximately HK$218,000 (2009: HK$20,000) which has been transferred from share-based payment reserve to accumulated losses.

35. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of reporting period (2009: Nil).

36. CAPITAL COMMITMENTS

At 31 December 2010, the Group did not have any significant capital commitments (2009: Nil).

37. LEASE COMMITMENTS

At 31 December 2010, the Group had total future minimum lease receivables and payables under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
As lessor:		
No more than one year	**97**	45
As lessee:		
No more than one year	**1,429**	483
Later than one year and no more than five years	**764**	319
Later than five years	**98**	–
	2,291	802

Operating lease receivables represented rental receivables by the Group for certain of its investment properties under operating lease arrangements, with leases negotiated for 0.6 to 1 year and rentals are fixed over the lease terms and do not include contingent rentals.

Operating lease payments represented rental payable by the Group for certain of its office. Leases are principally negotiated for 1 to 2.5 years and rentals are fixed over the lease terms and do not include contingent rentals.

38. RELATED PARTY TRANSACTIONS

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

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

	Group	
	2010	2009
	HK$'000	HK$'000
Sales of goods to a jointly controlled entity *(note a)*	**10,806**	5,435
Product development, sale and marketing services fees paid to a related company *(note b)*	**1,626**	1,184
Interest expenses paid to a related company *(note c)*	**–**	555
Interest expenses paid to a shareholder *(note d)*	**120**	69

38. RELATED PARTY TRANSACTIONS *(Continued)*

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

Notes:

(a) A shareholder of the jointly controlled entity is also the beneficial owner of 30% equity interest in the Company's subsidiary making the sales. These transactions were made at prices mutually agreed between the two parties entering into these transactions.

(b) The sole owner of the related company is also the director and beneficial owner of 49% (2009: 49%) equity interest in the Company's subsidiary paying for the services. These transactions were made at fees mutually agreed between the two parties entering into these transactions.

(c) Interest was charged at 11% per annum on the principal amount of loan payable to a related company. Two directors of the Company are also the directors of this related company.

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

(ii) Key management compensation

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**11,830**	5,558
Share based payments	**7,853**	691
Retirement benefits scheme contributions	**572**	416
	20,255	6,665

39. COMPARATIVE FIGURES

Certain comparative figures have been changed in order to conform with the current year's presentation.

40. EVENT AFTER THE REPORTING PERIOD

On 25 January 2011, the Company issued 754,721,872 ordinary shares of HK$0.02 each in relation to the conversion of all remaining Altered CN1 and CN2 at 31 December 2010 at the conversion price of HK$0.25 per share.

41. ONGOING ACQUISITIONS

On 8 July 2010 (as supplemented by the first and second supplemental agreements dated 20 August 2010 and 22 December 2010), the Group has entered into a conditional contract to acquire eight coal mines in the Guizhou Province of the PRC (the "Mines") at a total consideration for not more than HK$8,889,110,000. A technical adviser has been appointed by the Company as the competent person to prepare the technical reports on the estimated amounts of coal resources of the Mines. The Mines are preliminarily estimated to have anthracite coal resources of not less than 642.5 million tonnes (the "Acquisition"). The Acquisition is yet to be completed. For further details of the Acquisition, please refer to the Company's announcements on 1 April 2010, 20 August 2010 and 22 December 2010, respectively.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors of the Company on 28 March 2011.

Five Years Financial Summary

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

Results

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000 (Restated) *(note 3)*	2008 HK$'000 (Restated) *(note 3)*	2007 HK$'000	2006 HK$'000
Turnover	**186,095**	121,556	133,357	111,189	96,578
Profit/(loss) before income tax	**6,315**	(201,644)	(397,205)	(141,384)	2,577
Income tax (expense)/credit	**(1,344)**	(1,988)	150,144	20,035	(1,437)
Profit/(loss) for the year	**4,971**	(203,632)	(247,061)	(121,349)	1,140
Attributable to:					
Equity holders of the Company	**6,313**	(203,314)	(247,430)	(121,145)	1,103
Non-controlling interests	**(1,342)**	(318)	369	(204)	37
	4,971	(203,632)	(247,061)	(121,349)	1,140

Assets and Liabilities

	31 December				
	2010 HK$'000	2009 HK$'000 (Restated) *(note 3)*	2008 HK$'000 (Restated) *(note 3)*	2007 HK$'000	2006 HK$'000
Total assets	**951,152**	897,149	885,560	516,667	199,796
Total liabilities	**(500,318)**	(699,029)	(591,678)	(166,624)	(51,482)
Net assets	**450,834**	198,120	293,882	350,043	148,314
Equity attributable to equity holders of the Company	**450,543**	196,487	291,931	348,461	147,017
Non-controlling interests	**291**	1,633	1,951	1,582	1,297
Total equity	**450,834**	198,120	293,882	350,043	148,314

Notes:

(1) The consolidated results of the Group for the years ended 31 December 2009 and 2010 are set out on page 34 of this annual report.

(2) The consolidated statement of financial position as at 31 December 2009 and 31 December 2010 are set out on pages 36 to 37 of the annual report.

(3) The details of the restatements due to correction of prior year errors and change in accounting policies for the years ended 31 December 2009 and 2010 are set out in note 3 to the consolidated financial statements included in this annual report.