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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The Board (the "Board") of Directors (the "Directors") of Kiu Hung Energy Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the restated comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2010** ***HK$'000***	2009 *HK$'000* (Restated)
Turnover	*5*	**186,095**	121,556
Cost of sales		**(146,642)**	(89,531)
Gross profit		**39,453**	32,025
Other income	*5*	**6,676**	3,564
Selling and distribution costs		**(23,584)**	(14,554)
Administrative expenses		**(61,463)**	(32,974)
Other gain/(losses)	*8*	**52,291**	(166,279)
Operating profit/(loss)		**13,373**	(178,218)
Finance costs	*6*	**(7,104)**	(23,060)
Share of profit/(loss) of a jointly controlled entity		**46**	(366)
Profit/(loss) before income tax		**6,315**	(201,644)
Income tax expense	*7*	**(1,344)**	(1,988)
Profit/(loss) for the year	*8*	**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	*9*		
– basic		**0.13**	(4.90)
– diluted		**(0.78)**	(4.90)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	HK$'000	*HK$'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)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	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		**85,584**	69,596	63,768
Prepaid land lease payments		**4,639**	4,643	4,742
Investment properties		**8,500**	3,600	3,440
Goodwill	*11*	**–**	–	–
Exploration and evaluation assets	*12*	**750,843**	711,889	711,889
Mining right		**–**	–	–
Other intangible asset		**1,105**	1,117	1,129
Interest in a jointly controlled entity		**1,423**	1,377	1,743
Deferred tax assets		**280**	–	–
		852,374	792,222	786,711
Current assets				
Inventories		**18,287**	14,275	18,125
Trade receivables	*13*	**13,977**	2,804	5,014
Prepayments, deposits and other receivables		**10,190**	3,745	2,931
Due from a jointly controlled entity		**6,509**	593	3,256
Tax recoverable		**116**	511	218
Financial assets at fair value through profit or loss		**–**	286	286
Bank and cash balances		**49,699**	82,713	69,019
		98,778	104,927	98,849
Total assets		**951,152**	897,149	885,560

	Note	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 January 2009 HK$'000 (Restated)
Current liabilities				
Trade payables	*14*	**17,893**	12,896	10,165
Accruals and other payables		**20,015**	28,349	24,731
Tax payable		**1,275**	789	398
Borrowings		**38,300**	42,894	39,647
Derivative financial instruments		**–**	–	1,059
Promissory notes		**–**	–	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
Non-current liabilities				
Borrowings		**–**	–	17,613
Convertible notes	*15*	**–**	–	234,128
Financial liabilities at fair value through profit or loss	*16*	**245,285**	445,800	–
Deferred tax liabilities		**177,550**	168,301	168,521
		422,835	614,101	420,262
Net assets		**450,834**	198,120	293,882
Equity				
Share capital	*17*	**100,289**	88,546	82,315
Reserves		**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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *HK$'000* *(note 17)*	Share premium *HK$'000*	Statutory reserve *HK$'000*	Contributed surplus *HK$'000*	Foreign currency translation reserve *HK$'000*	Share-based payment reserve *HK$'000*	Property revaluation reserve *HK$'000*	Non-listed warrants reserve *HK$'000*	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 4(c))*	–	–	–	–	–	–	–	–	(3,146)	(3,146)	–	(3,146)
Inventory provision of toys business *(note 4(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 17(a))*	231	1,763	–	–	–	(821)	–	–	–	1,173	–	1,173
Issue of shares on placement *(note 17(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	–	–	–	–	–	692	–	–	–	692	–	692
Release on forfeiture of share options	–	–	–	–	–	(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

	Share capital HK$'000 (note 17)	Share premium HK$'000	Statutory reserve HK$'000	Contributed surplus HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Property revaluation reserve HK$'000	Non-listed warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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 4(a))*	–	–	–	–	–	–	–	–	2,001	2,001	–	2,001
Staff costs incurred for Huanghuashan Coal Mine *(note 4(b))*	–	–	–	–	–	–	–	–	1,458	1,458	–	1,458
Sales commission of toys business *(note 4(c))*	–	–	–	–	–	–	–	–	(1,886)	(1,886)	–	(1,886)
Inventory provision of toys business *(note 4(d))*	–	–	–	–	–	–	–	–	8,169	8,169	–	8,169
Fair value of financial liabilities at fair value through profit or loss *(note 4(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 17(a))*	79	599	–	–	–	(279)	–	–	–	399	–	399
Exercise of convertible notes to ordinary shares *(note 17(b))*	8,064	141,120	–	–	–	–	–	–	–	149,184	–	149,184
Issue of shares on placement *(note 17(c))*	3,600	55,828	–	–	–	–	–	–	–	59,428	–	59,428
Release on forfeiture of non-listed warrants	–	–	–	–	–	–	–	(409)	409	–	–	–
Release on forfeiture of share options	–	–	–	–	–	(218)	–	–	218	–	–	–
Recognition of share-based payment	–	–	–	–	–	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

NOTES:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 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.

The Group's consolidated financial statements for the year ended 31 December 2010 are presented in HK dollars, unless otherwise stated. These financial statements were approved by the board of directors of the Company on 28 March 2011.

2. BASIS OF PREPARATION

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

3. 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.

- 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 People's Republic of China (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 4(f) for the results from the adoption of Hong Kong Interpretation 5 on the consolidated statement of financial position.

(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.

- 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.

- 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.

4. 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 4(a) to (e) below. The amounts of the prior year correction for each financial statement line item affected are presented in the tables in notes 4(f)(I) to note 4(f)(V) below. The detailed description of the change in accounting policies is stated in note 3(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.

(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 16 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.

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

	As previously reported HK$'000	Note 4(a) HK$'000	Note 4(b) HK$'000	Note 4(c) HK$'000	Note 4(d) HK$'000	Note 4(e) HK$'000	As restated 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 profit 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)

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

	As previously reported *HK$'000*	Note 4(a) *HK$'000*	Note 4(b) *HK$'000*	Note 4(c) *HK$'000*	Note 4(d) *HK$'000*	Note 4(e) *HK$'000*	As restated *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)

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$'000*	Note 3(a) *HK$'000*	Note4(a) *HK$'000*	Note 4(b) *HK$'000*	Note 4(c) *HK$'000*	Note 4(d) *HK$'000*	Note 4(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

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$'000*	Note 3(a) *HK$'000*	Note 4(c) *HK$'000*	Note 4(d) *HK$'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

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

	As previously reported *HK$'000*	Note 4(e) *HK$'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

5. 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	**4,671**	158
Interest income	**26**	218
Rental income	**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 8), corporate finance costs and other corporate income and expenses. Segment assets do not include property, plant and equipment, bank and cash balances and prepayments, deposits and other receivables at corporate level. Segment liabilities do not include financial liabilities at fair value through profit or loss, borrowings, and accruals and other payables at corporate level.

(a) Information about reportable segment results, 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)

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

	2010	2009
	HK$'000	*HK$'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

	2010	2009
	HK$'000	*HK$'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	2009
	HK$'000	*HK$'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).

(d) Analysis of revenue by category:

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

6. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'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 15)*	**–**	11,935
Other loans wholly repayable within 5 years	**5,509**	4,317
Trust receipt loans	**123**	–
	7,104	23,060

7. 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	2009
	HK$'000	*HK$'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	**386**	–
Income tax expense	**1,344**	1,988

8. PROFIT/(LOSS) FOR THE YEAR

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

	2010	2009
	HK$'000	*HK$'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	**(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	**10,915**	6,235
Amortisation of prepaid land lease payments	**145**	98
Fair value loss on financial assets at fair value through profit or loss*	**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)		
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 15)*	**–**	(979)
Fair value (gain)/loss on Altered CN1 and CN2 and gain on derecognition of CN1 *(note 16)*	**(51,331)**	164,241
	(51,331)	163,262

* *Included in other gain/(losses)*

Notes:

(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.

9. 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	2009
	HK$'000	*HK$'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 through 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, dilutive effect was resulted from outstanding share options (granted in 2006) and 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 options (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 ordinary shares was not adjusted to compute the diluted loss per share.

10. FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: Nil).

11. 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 cash generating unit ("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 12) are allocated to 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 acquisition of Huanghuashan Coal Mine ("HCM") was immaterial since the potential mining values (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 CGU 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.

12. 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, 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

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 assessment of any existing impairment indicators as at 31 December 2010, the Directors concluded that there was no impairment indicator and an impairment test on the exploration and evaluation assets would not be necessary.

13. TRADE RECEIVABLES

	Group	
	2010	2009
	HK$'000	*HK$'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.

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

14. 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

15. 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 6) on the liability component and a fair value gain of approximately HK$979,000 (note 8) 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 16. Liability and derivative components of CN1 have been derecognised as a result of substantial changes in the terms of CN1.

16. 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.

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 capitalising the outstanding principal amount of the promissory notes of approximately HK$35,416,000. 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 8).

	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 8)*	(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 convertible notes.

The holder of CN1, Altered CN1, CN2 and the promissory note 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.

17. 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

Notes:

(a) During the year, the Company issued 3,920,000 (2009:11,547,000) 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$0.36 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.

18. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

19. COMPARATIVE FIGURES

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

20. EVENTS 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.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2010. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the financial year ended 31 December 2010 (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 is 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 for the Year 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

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

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 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.

Geographic information

During the year, the North America (includes the United States of America and Canada) recorded the largest increase in revenue by geographic 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).

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 interests were 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 3(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, 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).

Business Prospects and Future Plans for Material Investment

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

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. 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"). 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. Guizhou Province is located in the south-western part of China and its geographical location is advantageous for providing supplies to the local power generation. Therefore, the Group's Acquisition in Guizhou Province is in line with the business development strategies of our coal business. 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. 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 the 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 places, which are independent investors on 18 January 2010. The net subscription price (after deducted the placing expenses of approximately HK$1.6 million) is approximately HK$0.329 per share. The net proceeds of approximately HK$59.4 million will be used as follow: (i) approximately HK$15 million for repayment of the Group's borrowings and (ii) approximately HK$44.4 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 4 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the provision of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have compiled with the Model Code during the year ended 31 December 2010.

AUDIT COMMITTEE

The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system and provide advice and comments to the Board. The audit committee members have reviewed the Company's consolidated financial statements for the year ended 31 December 2010 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with management and the Company's external auditors.

PUBLICATION OF RESULTS

This announcement of results has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.381energy.com). The annual report of the Company for the year ended 31 December 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to all shareholders, customers, suppliers, business partners, banks, professional parties and employees of the Group for their continuous support.

By order of the Board
Kiu Hung Energy Holdings Limited
Hui Kee Fung
Chairman

Hong Kong, 28 March 2011

As at the date of this announcement, the Board comprises four executive directors, Mr. Hui Kee Fung, Mr. Yu Won Kong, Dennis, Mr. Guo Tianjue and Mr. Lam Kit Sun and three independent non-executive directors, Mr. Lam Siu Lun, Simon, Mr. Zhang Xianmin and Mr. Mohammed Ibrahim Munshi.