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)

Leading the Way Toward
A Brighter Future

Annual Report 2012

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Jin Peihuang

COMPANY SECRETARY

Mr. Cheung Kai Fung

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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman
KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

for the year ended 31 December	**2012 HK$'000**	2011 HK$'000 (Restated)	Change
TURNOVER	**192,803**	184,550	4.5%
Gross profit	**59,518**	38,342	55.2%
Loss for the year	**(504,936)**	(40,187)	11.6 times
Loss attributable to shareholders	**(508,859)**	(40,539)	11.6 times
Basic loss per share (in HK cents)	**(42.79)**	(3.55)	11.1 times
TOTAL ASSETS	**376,933**	976,425	(61.4%)
Shareholders' equity	**201,012**	681,467	(70.5%)

CHAIRMAN'S STATEMENT

Power up resources for **GROWTH**

On behalf of the board of the directors (the "Board") of Kiu Hung Energy Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2012 (the "Year").

RESULTS AND DIVIDENDS

The past year was a challenging period for the Group. The spread of the European debt crisis, the sluggish global economic growth, the noticeably declined international trade growths, volatilities in international financial markets and the decline in economic growth rate of China has posted many challenges to the Group during the Year.

During the Year, the Group recorded a turnover of approximately HK$192.8 million (2011: approximately HK$184.6 million), representing an increase of approximately 4.4% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$508.9 million (2011: approximately HK$40.5 million). Basic loss per share for the Year was approximately 42.79 HK cents (2011: approximately 3.55 HK cents).

The increase in the Group's loss was mainly attributable to significant increase in impairment loss of the exploration and evaluation assets of approximately HK$603.9 million of the Group during the Year (2011: HK$Nil). The impairment loss has no impact on cash flow during the Year.

BUSINESS REVIEW

Toys and Gifts Business

Turnover from toys and gifts business was approximately HK$192.8 million (2011: approximately HK$184.6 million), representing an increase of approximately 4.4% as compared to the previous year. The turnover from the toys and gifts business remained stable during the Year. The gross profit ratio of the toys and gifts business has improved from approximately 20.8% in previous year to approximately 30.9% for the Year. The increase in gross profit ratio is mainly due to the increase in the selling price of the products and the implementation of the cost control by the Group during the Year.

CHAIRMAN'S STATEMENT

Coal Business

On 14 November 2012, the Group has entered into a disposal agreement to sell the assets of Huanghuashan Coal Mine, including but not limited to its mining right and property, plant and equipment to an independent third party at a consideration of RMB31.0 million (equivalent to approximately HK$38.2 million). As at 31 December 2012, the above transaction has not been completed and the transaction is expected to be completed during the third quarter in 2013.

The mining license application process of Guerbanhada Coal Mine ("GCM") and Bayanhushuo Coal Field ("BCF") is much slower than originally expected. For GCM, the Group is still waiting for the approval of the master planning (總體規劃) from the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of the PRC (中華人民共和國國家能源局), which is one of the pre-conditions of getting the mining licence. For BCF, the master planning (總體規劃) of BCF was compiled and submitted to the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC for approval during the Year.

On 4 December 2012, the Group also entered into a non-legally binding memorandum of understanding ("MOU") with an independent third party ("Purchaser") in relation to the possible disposal of the exploration right of GCM at a consideration of RMB50.0 million (equivalent to approximately HK$62.5 million) ("Possible Disposal"). As at the date of this annual report, no legally binding agreement in respect of the Possible Disposal has been entered into and the parties to the MOU have decided not to proceed with the Possible Disposal and renegotiated on the structure of the Possible Disposal in the form of an equity transfer. Accordingly, the parties to the MOU have mutually agreed to terminate the MOU with effect from 28 March 2013 upon which each of the parties to the MOU is released from the MOU.

On 28 March 2013, the Group entered into a non-legally binding memorandum of understanding ("2013 MOU") with the Purchaser in relation to the possible sale ("Possible Sale") by the Group of the entire equity interest of its indirectly wholly-owned subsidiary, which owns the exploration right of GCM, to the Purchaser at a consideration of RMB50.0 million (equivalent to approximately HK$62.5 million). As at the date of this annual report, the Possible Sale is subject to the signing of the formal legally binding equity transfer agreement and the terms of the Possible Sale are subject to further negotiation between the parties to the 2013 MOU.

PROSPECTS

In order to face the challenges of the Group, the Group will review its current operations from time to time. In addition, the Group will also explore other investment opportunities that have earning potentials in order to expand its existing operations and to diversify its business to maximize the interests of the Group and our shareholders as a whole.

APPRECIATION

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

Hui Kee Fung
Chairman

Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

During the financial year ended 31 December 2012 (the "Year"), the Group recorded a turnover of approximately HK$192.8 million (2011: approximately HK$184.6 million), representing an increase of approximately 4.4% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$508.9 million (2011: approximately HK$40.5 million). Basic loss per share for the Year was approximately 42.79 HK cents (2011: approximately 3.55 HK cents).

The increase in the Group's loss was mainly attributable to the significant increase in impairment loss of the exploration and evaluation assets of approximately HK$603.9 million of the Group during the Year (2011: HK$Nil). The impairment loss has no impact on cash flow during the Year.

DIVIDEND

The Board does not recommend the payment of any dividend for the Year (2011: 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$192.8 million (2011: approximately HK$184.6 million), representing an increase of approximately 4.4% as compared to the previous year. The turnover from the toys and gifts business remained stable during the Year.

The gross profit ratio of the toys and gifts business was approximately 30.9% for the Year (2011: approximately 20.8%). The increase in gross profit ratio is mainly due to the increase in the selling price of the products and the implementation of the cost control by the Group during the Year.

Exploration and mining of natural resources

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

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

* *In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) in 2011. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.*

HCM is located in Tongliao City of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, HCM has an estimated coal resource of approximately 7.85 million tonnes of semi-anthracite coal. There is no material change in the amount of the estimated coal resources of HCM as at the date of this annual report.

In 2011, the government of Tongliao City of Inner Mongolia announced a proposal to merge the coal mines located in Tongliao City, in which HCM is located. In addition, the Economic and Information Committee Office of Inner Mongolia Autonomous Region (內蒙古自治區經濟和信息化委員會辦公室) has issued a consultation paper in May 2012 to propose not to renew after 1 January 2013 any mining licences with annual production capacity less than 450,000 tonnes. The current annual production capacity of the mining licence of HCM is 300,000 tonnes. Shall the consultation paper become legally effective, the Group may need to invest further in HCM to increase the annual production capacity to at least 450,000 tonnes. In view of the above and in order to improve the financial position of the Group, on 14 November 2012, Tongliao City Heng Yuan Mining Company Limited (通遼市恒源礦業有限責任公司) ("Heng Yuan"), a company established in the PRC with limited liability and an indirectly wholly-owned subsidiary of the Company entered into a disposal agreement pursuant to which Heng Yuan, agreed to sell the assets of HCM, including but not limited to its mining right and property, plant and equipment to an independent third party at the consideration of RMB31.0 million (equivalent to approximately HK$38.2 million). The sales consideration of approximately HK$38.2 million has been fully received on 30 December 2012. As at 31 December 2012, the above transaction has not yet been completed and the transaction is expected to be completed during the third quarter in 2013. Therefore, the consideration received was recorded as other payable as at 31 December 2012. Please refer to the below paragraph headed "Discontinued Operation" for further details.

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, GCM has an estimated coal resources of approximately 106 million tonnes of high quality thermal coal. There is no material change in the estimated coal resources of GCM as at the date of this annual report. The licence period of the exploration right of GCM is from 23 September 2011 to 22 September 2013.

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, BCF has an estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. In order to fulfill the requirement of the PRC government before submitting the master planning of BCF, the Group submitted a resources report of BCF to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部) in 2011. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC. Save as above, there is no material change in the estimated coal resources of BCF as at the date of this annual report. The licence period of the exploration right of BCF is from 4 July 2012 to 4 July 2014.

The mining licence application process of GCM and BCF is much slower than originally expected. For GCM, the Group is still waiting for the approval of the master planning (總體規劃) from the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the National Energy Commission of the PRC (中華人民共和國國家能源局), which is one of the pre-conditions of getting the mining licence. For BCF, the master planning (總體規劃) of BCF was compiled and submitted to the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC for approval during the Year.

In April 2012, the Development and Reform Commission of Inner Mongolia has issued a consultation paper (內蒙古自治區人民政府關於完善煤炭資源管理的通知(徵求意見稿)) (the "Consultation Paper") with an objective to adjust and enhance the government policy in managing the coal resources in Inner Mongolia. It is expected that the Group may take longer time to get the approval from the governments of Inner Mongolia and the PRC in applying the mining licences in the future. The Consultation Paper has yet to become legally effective and the Group will closely monitor the development of the Consultation Paper and assess the impact to the Group.

GEOGRAPHICAL INFORMATION

During the Year, revenue in the North America (includes the USA and Canada) amounted to approximately HK$172.5 million compared to approximately HK$147.3 million last year and represented approximately 89.5% (2011: approximately 79.8%) of the Group's total revenue. Revenue in the European Union (includes Spain, Italy, France and the United Kingdom) recorded a revenue of approximately HK$11.6 million for the Year compared to approximately HK$25.3 million last year and represented approximately 6.0% (2011: approximately 13.7%) of the Group's total revenue.

OTHER INCOME

Other income for the Year is comparable to the previous year.

SELLING AND DISTRIBUTION COSTS

Selling and distribution expenses for the Year is approximately HK$24.4 million (2011: approximately HK$24.5 million). There was no material change in the selling and distribution costs for the Year as compared to the previous year.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year increased by approximately 10.4% to approximately HK$60.5 million as compared to approximately HK$54.8 million in the previous year. The increase was mainly due to an increase in the share-based payment expenses of approximately HK$3.8 million during the Year.

OTHER (LOSSES)/GAINS, NET

Other losses, net for the Year is approximately HK$600.8 million (2011: other gains, net of approximately HK$9.8 million). The significant increase of other losses, net was mainly due to the significant impairment loss in respect of the exploration and evaluation assets of GCM and BCF of approximately HK$603.9 million recorded during the Year (2011: Nil). The carrying values of the exploration and evaluation assets of GCM and BCF were tested for impairment as at 31 December 2012. The recoverable amounts of the exploration and evaluation assets of GCM and BCF, which were estimated by an independent firm of professional valuer, of which the estimates, assumptions and judgements relating to the impairment tests are in note 4(b) to the consolidated financial statements, were significantly lower than their carrying values, and accordingly, an impairment loss of approximately HK$603.9 million has been charged for the Year. The impairment loss was made mainly due to (i) the slower than originally expected progress in getting the approval on the master planning (總體規劃) of GCM and BCF from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC; (ii) the expectation that it may take longer time to get the approval from the governments of Inner Mongolia and the PRC in applying the mining licences in the future as a result of the release of the Consultation Paper; and (iii) the decrease in coal price in the PRC during the Year. The impairment loss has no impact on cash flow during the Year.

The Company believes that the estimates/assumptions applied in the assessment of fair value which was estimated by an independent firm of professional valuer are reasonable. However, such estimates/assumptions are subject to significant uncertainties and judgments. The Company has made its best estimate of all relevant factors to be included in the valuation model based on current conditions. However, it is possible that the underlying estimates/assumptions can be changed significantly and further impairment charges/reversal of charges may be required in the future period.

FINANCE COSTS

Finance costs for the Year increased by approximately 62.5% to approximately HK$5.2 million as compared to approximately HK$3.2 million in the previous year. The increase in finance costs was mainly due to the increase in interest expenses on other loans of approximately HK$1.6 million.

INCOME TAX CREDIT/(EXPENSE)

The Group recorded an income tax credit of approximately HK$149.9 million during the Year (2011: tax expenses of approximately HK$1.2 million). The significant increase in income tax credit is due to the deferred tax credit of HK$151.0 million recorded during the Year as a result of the impairment loss of approximately HK$603.9 million in relation to the exploration and evaluation assets of GCM and BCF recorded during the Year.

DISCONTINUED OPERATION

On 14 November 2012, Heng Yuan, a company established in the PRC with limited liability and an indirectly wholly-owned subsidiary of the Company entered into a disposal agreement pursuant to which Heng Yuan, agreed to sell the assets of HCM, including but not limited to its mining right and property, plant and equipment to an independent third party at a consideration of RMB31.0 million (equivalent to approximately HK$38.2 million). As at 31 December 2012, the above transaction has not been completed and the transaction is expected to be completed during the third quarter in 2013. As at 31 December 2012, the assets of HCM of approximately HK$38.2 million were reclassified as “assets classified as held for sales” in the consolidated statement of financial position and the loss from the discontinued operation of approximately HK$25.4 million (2011: approximately HK$6.7 million) was recorded during the Year. The increase in the loss from the discontinued operation is mainly due to the impairment loss recognized for assets classified as held for sale of approximately HK$8.8 million and the increase in finance cost of approximately HK$6.7 million during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities provided by its principal bankers in Hong Kong and in the PRC. The Group had cash and bank balances of approximately HK$23.4 million at 31 December 2012 (2011: approximately HK$13.0 million). The Group’s cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2012, the Group’s borrowings amounted to approximately HK$56.7 million (2011: approximately HK$63.4 million).

The Group’s borrowings were mainly denominated in Hong Kong dollars and Renminbi, of which approximately 74.7% (2011: approximately 69.0%) bore interest at fixed lending rates.

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 57.5% at 31 December 2012 (2011: approximately 13.9%).

Net current liabilities of the Group at 31 December 2012 was approximately HK$30.9 million (2011: approximately HK$34.8 million) and the current ratio of the Group was approximately -22.2% (2011: approximately -32.2%).

As the majority of the Group’s transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group’s exposure to exchange rate fluctuation was relatively insignificant and the Group had not used any financial instruments for hedging during the Year.

At 31 December 2012, certain property, plant and equipment, prepaid land lease payments, investment properties and trade receivables held by the Group with aggregate carrying value of approximately HK$73.9 million (2011: approximately HK$86.9 million), were pledged to secure general banking facilities granted to the Group.

The Group did not have any capital commitments as at 31 December 2012 (2011: approximately HK$0.8 million).

At 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

BUSINESS PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

Going forward, the Group will review its current operations from time to time and will continue to explore other investment opportunities that have earning potentials in order to expand its existing operations and to diversify its business to maximize the interests of the Group and our shareholders as a whole.

On 4 December 2012, Inner Mongolia Mingrunfeng Energy Co., Ltd. (內蒙古銘潤峰能源有限公司) ("Mingrunfeng"), an indirectly wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding ("MOU") with Xilinguolemeng Wulagai River Mineral Company Limited (錫林郭勒盟烏拉蓋河礦業有限公司), an independent third party (the "Purchaser"), in relation to the possible disposal of the exploration right of GCM at a consideration of RMB50.0 million (equivalent to approximately HK$62.5 million) ("Possible Disposal"). Please refer to the Company's announcement dated 4 December 2012 for the details of MOU. As at the date of this annual report, no legally binding agreement has been entered into and the parties to the MOU have decided not to proceed with the Possible Disposal and renegotiated on the structure of the Possible Disposal in the form of an equity transfer. Accordingly, the parties to the MOU have mutually agreed to terminate the MOU with effect from 28 March 2013 upon which each of the parties to the MOU is released from the MOU.

On 28 March 2013, Bright Asset Investments Limited, First Choice Resources Limited, Jumplex Investments Limited and Wise House Limited, (collectively the "Vendors"), all of which being indirectly wholly-owned subsidiaries of the Company, entered into a non-legally binding memorandum of understanding ("2013 MOU") with the Purchaser in relation to the possible sale ("Possible Sale") by the Vendors of the entire equity interest in Mingrunfeng ("Sale Interest") to the Purchaser at a consideration of RMB50.0 million (equivalent to approximately HK$62.5 million). As at the date of this annual report, Mingrunfeng is the holder of the exploration right of GCM, which is the principal asset of Mingrunfeng.

The Possible Sale is subject to the signing of the formal legally binding equity transfer agreement and the terms of the Possible Sale are subject to further negotiation between the parties to the 2013 MOU. As at the date of this annual report, no legally binding agreement in relation to the Possible Sale has been entered into. Further announcement in respect of the Possible Sale will be made by the Company as and when appropriate.

Please refer to the Company's announcement dated 28 March 2013 for the details of 2013 MOU.

CAPITAL STRUCTURE

At 31 December 2012, the capital structure of the Company is constituted of 5,969,304,672 ordinary shares of HK$0.02 each (2011: 5,769,304,672 ordinary shares of HK$0.02 each). Apart from the ordinary shares in issue, the capital instruments in issue of the Company include share options to subscribe for the Company's shares.

On 1 February 2012, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK$0.06 per share to not less than six independent investors. The net subscription price (after deducting the placing expenses) is approximately HK$0.058 per share. The net proceeds of approximately HK$11.6 million were used as the general working capital of the Group. The subscription of new ordinary shares of the Company was completed on 13 February 2012 and the Company's issued ordinary shares have been increased from 5,769,304,672 ordinary shares to 5,969,304,672 ordinary shares. Please refer to the Company's announcement dated 1 February 2012 for the details.

In 2011, 754,877,872 new ordinary shares have been issued by the Company as a result of issuing (i) 754,721,872 new ordinary shares upon the conversion of the Company's convertible notes; and (ii) 156,000 new ordinary shares upon the exercise of share options by the option holders.

At 31 December 2012, 218,078,600 share options remained outstanding (2011: 136,042,600 share options).

The above information of capital structure of the Company has not taken into account the effect of share consolidation with details as set out below.

Subsequent to the balance sheet date, on 14 January 2013, the Board put forward to the shareholders of the Company a proposal of share consolidation (the "Share Consolidation") on the basis that every five issued and unissued shares of HK$0.02 each in the share capital of the Company be consolidated into one consolidated share of HK$0.1 each. A circular containing, among other things, further details on the Share Consolidation together with a notice of the extraordinary general meeting (the "EGM"), was dispatched to the shareholders on 22 January 2013.

As at 31 December 2012, the authorized share capital of the Company was HK$200,000,000 divided into 10,000,000,000 shares of par value of HK$0.02 each, of which 5,969,304,672 shares had been allotted and issued as fully paid or credited as fully paid. Upon the Share Consolidation becoming effective, the authorized share capital of the Company remained at HK$200,000,000 but was divided into 2,000,000,000 consolidated shares of par value of HK$0.1 each, of which 1,193,860,934 consolidated shares were in issue. All the consolidated shares rank pari passu in all respects with each other in accordance with the articles of association of the Company. Save for any fractional consolidated shares to which shareholders may be entitled, the implementation of the Share Consolidation did not alter the underlying assets, business operations, management or financial position of the Company or result in any change in the rights of the shareholders.

The Share Consolidation became effective on 8 February 2013.

EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2012, the Group had a total of 491 employees (2011: 785 employees). The decrease in the number of employees is mainly due to the disposal of the assets of HCM. The Group maintains good working relations with its employees and has committed itself to staff training and development.

Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Hui Kee Fung, aged 52, has been appointed as executive director and chairman of the Company since November 2000. He has over 20 years of experience in various industries. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, a Fellow of the Asian Knowledge Management College, an Adjunct Professor in Faculty of Business of City University of Hong Kong, a Member of the Economic Cooperative Committee between Hong Kong and the Fujian Province, the PRC, the Honorary Life Chairman of the Hong Kong Federation of Fujian Association, a Standing Committee Member of the Economic Cooperative and Promotion Committee between Hong Kong and the Heilongjiang Province, the Honorable Chairman of the Hong Kong Fujian Charitable Education Fund, the Honorable Chairman of The Fujian Putian University in the PRC, the Chairman of Xu A Qiong Foundation of Putian and an Honorary Citizen of Putian, Fujian, the PRC. Mr. Hui has awarded the Young Industrialist Awards of Hong Kong in 2001.

Mr. Yu Won Kong, Dennis, aged 63, has been appointed as executive director of the Company 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 was also the chairman and executive director of Ruifeng Petroleum Chemical Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange ("GEM"), from 11 August 2008 to 28 September 2012.

Mr. Guo Tianjue, aged 73, has been appointed as executive director of the Company since October 2009 and resigned with effect from 1 September 2012. 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 35, has been appointed as executive director of the Company since October 2009. He has over 10 years of experience in the field of financial reporting, financial management and audit experience in Greater China area and Hong Kong. Mr. Lam has worked in an international accountancy firm in Hong Kong for over 4 years and has been the company secretary and qualified accountant of China Leason Investment Group Co. Limited, a company listed on the GEM. Mr. Lam is a practicing member of the Hong Kong Institute of Certificate Public Accountants. Mr. Lam was the non-executive director of Ruifeng Petroleum Chemical Holdings Limited, a company listed on GEM, from 11 August 2008 to 6 July 2011.

Independent Non-Executive Directors

Mr. Lam Siu Lun, Simon, aged 63, has been appointed as independent non-executive director of the Company 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 59, has been appointed as independent non-executive director of the Company since October 2009. He graduated from China Central Radio and Television University with a degree in administration. Mr. Zhang currently holds the following positions: Chairman of magazine "Coastline", Part-time Professor of Xiamen University, Part-time Professor of Zhongnan University of Economics and Law, Standing Committee Member of Think Tank of Guangzhou, Chief Coordinator of Aid-the-Poor & Aid-the-Students Programme of Hong Kong Society for the Promotion of Virtue, Deputy Secretary-General of China Economics Award Administration Committee and Director of Hong Kong Branch, China Council for the Promotion of Peaceful National Reunification. In addition, he once served as Chairman of China Economic & Culture Fund in Hong Kong and Deputy Chairman of Shenzhen Association of Enterprises with Foreign Investment.

Mr. Jin Peihuang, aged 69, has been appointed as independent non-executive director of the Company since May 2011. Mr. Jin graduated from Jiangxi Mining Institute in 1964, specialist in underground mining of coal. Mr. Jin has over 39 years of experience in coal mining industry. He has been working in Feng-Feng Mine Administration Office of Hebei Province, Ministry of Coal Industry and China Coal Construction Group Corporation. He was a professor-grade senior engineer before his retirement in 2003.

SENIOR MANAGEMENT

Mr. Cheung Kai Fung, aged 38, has been appointed as the chief financial officer and company secretary of the Company since 15 March 2010. 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 58, is the managing director of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited, the indirect wholly-owned subsidiary of the Company. He has 25 years of experience in military and government and over 10 years of experience in the coal industry in Inner Mongolia. He is a Senior Economist for coal industry and has worked as the General Manager of Beijing Zhongmei Hengrun Co., Ltd., a subsidiary of the China Coal Group. He has in-depth knowledge in the sales and marketing of coals, processing of coal products and purchasing of coal mine machinery and equipment.

Mr. Hui Ki Yau, aged 51, is the president of the Group's toys and gifts business. He is responsible for the operations and the sales and marketing functions of the toy and gift business of the Group. Mr. Hui has over 20 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 44, 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 2012.

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 18 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 2012 is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2012 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 30 to 34 of this annual report. The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

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

BORROWINGS

Details of the borrowings of the Group as at 31 December 2012 are set out in note 25 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 28 and 31 to the consolidated financial statements.

After the year ended 31 December 2012, the Board put forward to the shareholders a proposal of share consolidation (the "Share Consolidation") on the basis that every five issued and unissued shares of HK$0.02 each in the share capital of the Company be consolidated into one consolidated share of HK$0.1 each. A circular containing, among other things, further details on the Share Consolidation together with a notice of the extraordinary general meeting (the "EGM"), was dispatched to the shareholders on 22 January 2013.

Effects of the Share Consolidation

As at 31 December 2012, the authorized share capital of the Company was HK$200,000,000 divided into 10,000,000,000 shares of par value of HK$0.02 each, of which 5,969,304,672 shares had been allotted and issued as fully paid or credited as fully paid. Upon the Share Consolidation becoming effective, the authorized share capital of the Company remained at HK$200,000,000 but was divided into 2,000,000,000 consolidated shares of par value of HK$0.1 each, of which 1,193,860,934 consolidated shares were in issue.

All the consolidated shares rank pari passu in all respects with each other in accordance with the articles of association of the Company.

Save for any fractional consolidated shares to which shareholders may be entitled, the implementation of the Share Consolidation did not alter the underlying assets, business operations, management or financial position of the Company or result in any change in the rights of the shareholders.

Effective date of the Share Consolidation

The Share Consolidation became effective on 8 February 2013 upon (i) obtaining the conditional listing approval from the Listing Division of the Stock Exchange on 31 January 2013 granting the listing of, and permission to deal in, the consolidated shares in issue and to be issued; and (ii) the passing of the necessary ordinary resolution by the shareholders by way of poll to approve the Share Consolidation at the EGM, which was held on 7 February 2013.

Adjustments in relation to share options

Pursuant to the terms of the share option scheme adopted by the Company on 28 May 2002 (the "Share Option Scheme"), adjustments are required to be made to the exercise price of and the number of outstanding share options as a result of the Share Consolidation. In accordance with the terms of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 (the "Supplementary Guidance") regarding adjustment of share options under Rule 17.03(13) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the exercise price of and the number of outstanding share options granted under the Share Option Scheme were adjusted in the following manner with effect from 8 February 2013:

	Before adjustment		After adjustment	
Date of grant	**Number of outstanding share options**	**Exercise prices**	**Adjusted number of outstanding share options**	**Adjusted exercise prices**
19 June 2006	45,778,600	HK$0.1016	9,155,720	HK$0.5080
5 July 2007	3,300,000	HK$0.7400	660,000	HK$3.7000
29 March 2012	84,500,000	HK$0.0644	16,900,000	HK$0.3220
29 March 2012	84,500,000	HK$0.0773	16,900,000	HK$0.3865
	218,078,600		43,615,720	

In accordance with the terms of the Share Option Scheme, an independent financial adviser had certified that the above adjustments were in accordance with Rule 17.03(13) of the Listing Rules, the Supplementary Guidance and the Share Option Scheme. Save for the above adjustments, all other terms and conditions of the share options remain unchanged.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company had distributable reserves of approximately HK$81.4 million (2011: HK$565.9 million). Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the contributed surplus and share premium of the Company of approximately HK$125.2 million (2011: HK$125.2 million) and approximately HK$984.9 million (2011: HK$976.9 million), respectively, at 31 December 2012 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 96 of this annual report.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling approximately HK$4,000 (2011: HK$313,000).

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$1,521,000 (2011: approximately HK$1,725,000) 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 (2011: Nil) was available at 31 December 2012 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 2012 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 71.1% of the total sales for the year and sales to the largest customer included therein accounted for approximately 39.6%. Purchases from the Group's five largest suppliers accounted for approximately 41.5% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 13.7%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hui Kee Fung *(Chairman)*
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*
Mr. Guo Tianjue (resigned on 31 August 2012)
Mr. Lam Kit Sun

Independent non-executive directors:

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Jin Peihuang

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.

According to article 87 of the Company's articles of association, at each annual general meeting one-third of the directors of the Company for the time being shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

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 13 to 14 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Hui Kee Fung has entered into a service contract with the Company for an initial term of one year commencing on 1 July 2012 ("Service Period"), which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Yu Won Kong, Dennis and Mr. Guo Tianjue ("Mr. Guo") have entered into a service contract with the Company for an initial term of two years commencing on 22 October 2011, which may be terminated by either party thereto by giving to the other three months' prior notice in writing. Mr. Guo resigned as an executive director with effect from 1 September 2012.

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

Apart from the foregoing, no director to be 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 of the Company are appointed for a fixed term of 2 years.

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in note 35 to the consolidated financial statements, no director of the Company 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 2012, 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	Capacity: Interest of controlled corporation	Capacity: Interest of child under 18 or spouse	Capacity: Beneficial owner	Approximate percentage or attributable percentage of shareholdings
Hui Kee Fung *(Note 1)*	779,500,000	(L) 767,500,000	–	(L) 12,000,000	13.06%
Yu Won Kong, Dennis	588,536,821	–	(L) 14,500,000	(L) 574,036,821	9.86%
Lam Kit Sun	12,000,000	–	–	(L) 12,000,000	0.20%
Lam Siu Lun, Simon	9,000,000	–	–	(L) 9,000,000	0.15%
Zhang Xianmin	9,000,000	–	–	(L) 9,000,000	0.15%
Jin Peihuang	9,000,000	–	–	(L) 9,000,000	0.15%

L: Long Position

Notes:

1. *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.*

2. *The above information of the directors' interest in shares has not taken into account the effect of the Share Consolidation which was effective on 8 February 2013.*

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 2012.

Save as disclosed above, as at 31 December 2012, 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 of the Company 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 the Share Option Scheme which became effective on 28 May 2002. Pursuant to the Share Option Scheme, the directors of the Company may, at their discretion, invite any eligible employees (including executive directors of the Company), any non-executive directors of the Company, 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 of the Company, 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 Share Option 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 Share Option 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 Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option 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 ended 31 December 2012:

	Number of share options						
Grantee *(Note)*	**Outstanding at 1 January 2012**	**Granted during the year**	**Exercised during the year**	**Expired during the year**	**Forfeited during the year**	**Outstanding at 31 December 2012**	**Exercise price** HK$
Executive directors	34,000,000	–	–	(34,000,000)	–	–	0.4000
	34,000,000	–	–	(34,000,000)	–	–	0.6000
	–	71,000,000	–	–	(29,500,000)	41,500,000	0.0644
	–	71,000,000	–	–	(29,500,000)	41,500,000	0.0773
Independent non-executive directors	6,000,000	–	–	(6,000,000)	–	–	0.4000
	6,000,000	–	–	(6,000,000)	–	–	0.6000
	–	13,500,000	–	–	–	13,500,000	0.0644
	–	13,500,000	–	–	–	13,500,000	0.0773
Employees	46,742,600	–	–	–	(964,000)	45,778,600	0.1016
	3,300,000	–	–	–	–	3,300,000	0.7400
	3,000,000	–	–	(3,000,000)	–	–	0.6000
	3,000,000	–	–	(3,000,000)	–	–	0.4240
	–	29,500,000	–	–	–	29,500,000	0.0644
	–	29,500,000	–	–	–	29,500,000	0.0773
	136,042,600	228,000,000	–	(86,000,000)	(59,964,000)	218,078,600	

Note: *The above information of the outstanding share options has not taken into account the effect of the Share Consolidation which was effective on 8 February 2013.*

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

The Board is considering to put forward to the shareholders a proposal to adopt a new share option scheme (the "New Share Option Scheme"). Due to the expiry of the Share Option Scheme on 27 May 2012, the Company has no subsisting share option scheme as at the date of this annual report. The purpose of the New Share Option Scheme is to provide incentive and/or reward to eligible persons, as defined under the Share Option Scheme, for their contribution to, and continuing efforts to promote interests of the Group. A circular containing, among other matters, further details on the proposed adoption of the New Share Option Scheme will be dispatched to the shareholders in accordance with all applicable requirements of the Listing Rules as and when appropriate. Notwithstanding the expiration of the Share Option Scheme, the provisions of the Share Option Scheme shall remain in force in all respects with respect to be outstanding options granted under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31 December 2012, 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:

Name of shareholders	Number of shares or underlying approximate shareholding	Capacity	
		Beneficial owner	Interest of child under 18 or spouse
Legend Win Profits Limited *(Note 1)*	767,500,000 12.86%	(L) 767,500,000	–
Grand Field Capital Investments Limited	603,500,000 10.11%	(L) 603,500,000	–
Ho Siu Lan, Sandy *(Note 2)*	588,536,821 9.86%	(L) 14,500,000	(L) 574,036,821
Yue Wai Keung	550,448,230 9.22%	(L) 550,448,230	–

L: Long position

Notes:

1. *The shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung 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.*

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

3. *The above information of the substantial shareholders has not taken into account the effect of the Share Consolidation which was effective on 8 February 2013.*

CONTINUING CONNECTED TRANSACTIONS

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

The Service transactions

On 16 May 2012, 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, agreed to renew the service agreement (the "Service Agreement") for a term of three years which commenced from 1 January 2012. 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 2012 to 31 December 2014. The annual cap for the services was HK$1,872,000 during each of three years ending 31 December 2014.

During the year, the transactions made between Miracles USA and Better Sourcing in respect of services amounted to approximately HK$1,663,000 (2011: HK$1,663,000), and were within the relevant annual cap approved by the shareholders of the Company.

The Service 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 Rules 14A.45 to 14A.54 of the Listing Rules.

For details, please refer to the Company's announcements dated 16 May 2012.

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 conclusion in respect of the continuing connected transactions disclosed by the Group on pages 21 to 22 of this annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter will be provided by the Company to the Stock Exchange in accordance with Rule 14A.38 of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this annual 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 annual report.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 23 to 27 of this annual report.

INDEPENDENT CONFIRMATION

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

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 36 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Hui Kee Fung
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2012, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 "Corporate Governance Code and Corporate Governance Report" 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 2012.

BOARD OF DIRECTORS

As at 31 December 2012, the Board currently comprises three executive directors and three independent non-executive directors. For a director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

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

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

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

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

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his first appointment in order to enable he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Board members are updated and apprised of any laws and regulations applicable to the Company and its directors as well as any amendments thereto. On a continuing basis, directors are encouraged to keep up to date on all matters relevant to the Group and attend briefings and seminars as appropriate.

The Company currently maintains three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee, with defined terms of reference which are posted on the websites of the Company and the Stock Exchange. The Board is responsible for performing the corporate governance duties set out in the CG Code.

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Twelve Board meetings were held in 2012. Individual attendance of each director of the Company at the Board meetings, the Audit Committee meetings, the Remuneration Committee meetings and the general meeting of the Company during 2012 is set out below:

	Attendance/number of meetings			
Director	**Board**	**Audit committee**	**Remuneration committee**	**General meeting**
Executive director				
Mr. Hui Kee Fung *(Chairman)*	11/12	N/A	3/3	1/1
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*	12/12	N/A	N/A	1/1
Mr. Guo Tianjue *(*)*	7/8	N/A	N/A	1/1
Mr. Lam Kit Sun	12/12	N/A	N/A	1/1
Independent non-executive director				
Mr. Lam Siu Lun, Simon	12/12	2/2	3/3	1/1
Mr. Zhang Xianmin	12/12	2/2	3/3	0/1
Mr. Jin Peihuang[1]	10/12	2/2	2/3	0/1

(*) Mr. Guo Tianjue resigned as a member of the Board with effect from 1 September 2012.

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

Biographical details of the directors of the Company can be found under the Profile of Directors and Senior Management section on pages 13 to 14 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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 2012. All committee members are independent non-executive directors. Its members as at 31 December 2012 include:

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

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

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 duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. Three meetings were held by the Remuneration Committee in 2012. Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2012 include:

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

Pursuant to Code Provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band	**Number of individuals**
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

Directors' remunerations and five highest paid employees for the year ended 31 December 2012 are disclosed in note 11 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request. No meeting was held by the Nomination committee in 2012. Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2012 include:

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

AUDITOR'S REMUNERATION

During the year, the Group has incurred auditor's remuneration of HK$2,000,000 (2011: HK$2,000,000) all of which was paid/payable to the Company's existing auditor, PricewaterhouseCoopers. In addition, professional fee of approximately HK$116,000 (2011: HK$154,000) was payable by the Group for the taxation and other services rendered by PricewaterhouseCoopers.

COMPANY SECRETARY

Mr. Cheung Kai Fung joined the Group since 1 December 2009 and has been appointed as the Company Secretary and Chief Financial Officer of the Company since 15 March 2010. In his capacity acting as the Company Secretary of the Company, Mr. Cheung reports to the Board and is responsible for advising the Board on corporate governance matters. Mr. Cheung has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Biographical details of Mr. Cheung can be found under the Profile of Directors and Senior Management section on page 14 of this annual report.

SHAREHOLDERS' RIGHTS

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURE BY WHICH ENQUIRIES PUT TO THE BOARD

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Branch Share Registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong or via email to info@381energy.com.

INVESTOR RELATIONS

The Company highly values its relationship with its shareholders and other stakeholders. It has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The main features of the system are as follows:

- The Company maintains a corporate website www.381energy.com on which comprehensive information about the Group, including core business, financial reports, public announcements, circulars and news of the Group, is disclosed. Shareholders can obtain corporate communication electronically via the Company's website.

- The Company establishes and maintains different communication channels with its shareholders and other stakeholders through annual reports, interim reports and other publication.

- AGM provides a useful forum for shareholders to exchange views with the Board. The respective chairmen of the Board and Audit, Remuneration and Nomination Committees (or in the absence of the chairmen of such Committees, another member of each Committee or failing this his duly appointed delegate) will endeavor to be available to answer questions raised by shareholders.

- Separate resolutions are proposed at general meetings for each substantially separate issue, including the election of individual Directors.

- Details of the proposed resolutions to be put forward at a general meeting are, where necessary or appropriate, included in a circular to the shareholders dispatched prior to the date of the relevant general meeting.

- All resolutions put to the vote of a general meeting are taken by poll. The poll results are published on the Stock Exchange's website www.hkexnews.hk and on the Company's website in accordance with Rule 13.39(5) of the Listing Rules.

In addition, the Company has established the investor relations department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner.

Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong or via email to info@381energy.com for any enquiries. The shareholders' communication policy is available on the Company's website www.381energy.com under the "Investor Relations/ Corporate Governance" section.

INTERNAL CONTROLS

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

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

FINANCIAL REPORTING

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

The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report on pages 28 to 29 of this annual report.

GOING CONCERN

At 31 December 2012, the Group's current liabilities exceeded its current assets by approximately HK$30,894,000 and the Group recorded a loss of approximately HK$504,936,000 and a net operating cash outflow of approximately HK$22,116,000 during the year ended 31 December 2012. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

(1) Subsequent to 31 December 2012, the Group obtained borrowings of HK$15,000,000, which are secured by the personal guarantee from a director of the Company;

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

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

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

The directors of the Company are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2012. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF KIU HUNG ENERGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kiu Hung Energy Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T:+852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

We draw attention to note 2.1 to the consolidated financial statements, which states that the Group incurred a net loss of approximately HK$504,936,000 and had a net operating cash outflow of approximately HK$22,116,000 during the year ended 31 December 2012 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$30,894,000. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to obtain sufficient new borrowings, extend its existing borrowings upon their maturities, raise capital from existing and new investors, and derive adequate operating cash flows from its operations. These conditions, along with other matters as described in note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Turnover	6	**192,803**	184,550
Cost of sales		**(133,285)**	(146,208)
Gross profit		**59,518**	38,342
Other income	6	**1,881**	1,889
Selling and distribution costs		**(24,404)**	(24,508)
Administrative expenses		**(60,467)**	(54,761)
Other (losses)/gains, net	9	**(600,808)**	9,847
Operating loss		**(624,280)**	(29,191)
Finance costs	7	**(5,154)**	(3,174)
Share of profit of a jointly controlled entity		**–**	48
Loss before income tax		**(629,434)**	(32,317)
Income tax credit/(expense)	8	**149,945**	(1,155)
Loss for the year from continuing operations	9	**(479,489)**	(33,472)
Discontinued operation			
Loss for the year from discontinued operation	22	**(25,447)**	(6,715)
Loss for the year		**(504,936)**	(40,187)
(Loss)/profit attributable to:			
Equity holders of the Company		**(508,859)**	(40,539)
Non-controlling interests		**3,923**	352
		(504,936)	(40,187)
Loss attributable to equity holders of the Company arises from:			
Continuing operations		**(483,412)**	(33,824)
Discontinued operation		**(25,447)**	(6,715)
		(508,859)	(40,539)
		HK cents	HK cents (Restated)
Loss per share from continuing and discontinued operations attributable to the equity holders of the Company	10		
Basic loss per share			
From continuing operations		**(40.65)**	(2.96)
From discontinued operation		**(2.14)**	(0.59)
From loss for the year		**(42.79)**	(3.55)
Diluted loss per share			
From continuing operations		**(40.65)**	(3.91)
From discontinued operation		**(2.14)**	(0.58)
From loss for the year		**(42.79)**	(4.49)

The notes on pages 39 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Loss for the year	**(504,936)**	(40,187)
Other comprehensive income:		
Exchange difference arising from translation of foreign operations	**(2,601)**	30,629
Surplus on revaluation of properties	**12,631**	4,894
Deferred tax arising on revaluation of properties	**(1,903)**	(662)
Other comprehensive income for the year, net of tax	**8,127**	34,861
Total comprehensive loss for the year	**(496,809)**	(5,326)
Total comprehensive (loss)/income attributable to:		
— Equity holders of the Company	**(500,732)**	(5,678)
— Non-controlling interests	**3,923**	352
	(496,809)	(5,326)
Total comprehensive loss attributable to equity holders of the Company arises from:		
Continuing operations	**(475,315)**	(828)
Discontinued operation	**(25,417)**	(4,850)
	(500,732)	(5,678)

The notes on pages 39 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**71,994**	100,015
Prepaid land lease payments	*13*	**4,635**	4,752
Investment properties	*14*	**9,850**	9,358
Exploration and evaluation assets	*15*	**180,904**	788,075
Mining right	*16*	**–**	–
Other intangible asset	*17*	**1,082**	1,093
Deferred tax assets	*27*	**411**	–
		268,876	903,293
Current assets			
Inventories	*19*	**18,831**	26,119
Trade receivables	*20*	**17,049**	18,093
Prepayments, deposits and other receivables		**10,407**	14,945
Tax recoverable		**118**	973
Bank and cash balances	*21*	**23,418**	13,002
		69,823	73,132
Assets classified as held for sale	*22*	**38,234**	–
		108,057	73,132
Total assets		**376,933**	976,425
Current liabilities			
Trade payables	*23*	**9,978**	20,689
Accruals and other payables	*23*	**71,889**	23,407
Tax payable		**379**	398
Borrowings	*25*	**56,705**	63,405
		138,951	107,899
Net current liabilities		**(30,894)**	(34,767)
Total assets less current liabilities		**237,982**	868,526

	Note	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred tax liabilities	*27*	**36,970**	187,059
		36,970	187,059
Net assets		**201,012**	681,467
Equity			
Share capital	*28*	**119,386**	115,386
Reserves	*29*	**75,619**	563,997
Equity attributable to equity holders of the Company		**195,005**	679,383
Non-controlling interests		**6,007**	2,084
Total equity		**201,012**	681,467

The notes on pages 39 to 95 are an integral part of these consolidated financial statements.

The financial statements on pages 30 to 95 were approved by the board of directors of the Company on 28 March 2013 and were signed on its behalf.

Hui Kee Fung
Director

Yu Won Kong, Dennis
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**–**	271
Investments in subsidiaries	*18*	**285,746**	753,238
		285,746	753,509
Current assets			
Prepayments, deposits and other receivables		**491**	495
Bank and cash balances	*21*	**32**	1,157
		523	1,652
Total assets		**286,269**	755,161
Current liabilities			
Accruals and other payables	*23*	**18,972**	8,326
Due to subsidiaries	*24*	**60,993**	60,000
Borrowings	*25*	**5,500**	5,500
		85,465	73,826
Net current liabilities		**(84,942)**	(72,174)
Net assets		**200,804**	681,335
Equity			
Share capital	*28*	**119,386**	115,386
Reserves	*29*	**81,418**	565,949
Total equity		**200,804**	681,335

The notes on pages 39 to 95 are an integral part of these consolidated financial statements.

The financial statements on pages 30 to 95 were approved by the board of directors of the Company on 28 March 2013 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 2012

	Attributable to equity holders of the Company										
	Share capital	**Share premium**	**Statutory surplus**	**Contributed surplus**	**Foreign currency translation reserve**	**Share-based payment reserve**	**Property revaluation reserve**	**Accumulated losses**	**Total**	**Non-controlling interest**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(note 28)	*(note (a))*	*(note (b))*	*(note (c))*	*(note (d))*	*(note (e))*	*(note (f))*				
At 1 January 2011	100,289	758,054	3,191	303	71,107	12,468	21,022	(515,891)	450,543	291	450,834
Total comprehensive (loss)/ income for the year	–	–	–	–	30,629	–	4,232	(40,539)	(5,678)	352	(5,326)
Transaction with equity holders											
Issue of shares upon exercise of share options *(note 28(b))*	3	23	–	–	–	(11)	–	–	15	–	15
Conversion of convertible notes to ordinary shares *(note 28(c))*	15,094	218,870	–	–	–	–	–	–	233,964	–	233,964
Release on forfeiture of share options *(note 31)*	–	–	–	–	–	(694)	–	694	–	–	–
Recognition of share-based payment *(note 31)*	–	–	–	–	–	539	–	–	539	–	539
Acquisition of a subsidiary *(note 30)*	–	–	–	–	–	–	–	–	–	1,441	1,441
Total transactions with equity holders	15,097	218,893	–	–	–	(166)	–	694	234,518	1,441	235,959
At 31 December 2011	115,386	976,947	3,191	303	101,736	12,302	25,254	(555,736)	679,383	2,084	681,467
At 1 January 2012	**115,386**	**976,947**	**3,191**	**303**	**101,736**	**12,302**	**25,254**	**(555,736)**	**679,383**	**2,084**	**681,467**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**–**	**(2,601)**	**–**	**10,728**	**(508,859)**	**(500,732)**	**3,923**	**(496,809)**
Transaction with equity holders											
Issue of shares on placement *(note 28(a))*	**4,000**	**8,000**	**–**	**–**	**–**	**–**	**–**	**–**	**12,000**	**–**	**12,000**
Release on expiry/forfeiture of share options *(note 31)*	**–**	**–**	**–**	**–**	**–**	**(9,086)**	**–**	**9,086**	**–**	**–**	**–**
Recognition of share-based payment *(note 31)*	**–**	**–**	**–**	**–**	**–**	**4,354**	**–**	**–**	**4,354**	**–**	**4,354**
Transfer to reserve	**–**	**–**	**129**	**–**	**–**	**–**	**–**	**(129)**	**–**	**–**	**–**
Total transactions with equity holders	**4,000**	**8,000**	**129**	**–**	**–**	**(4,732)**	**–**	**8,957**	**16,354**	**–**	**16,354**
At 31 December 2012	**119,386**	**984,947**	**3,320**	**303**	**99,135**	**7,570**	**35,982**	**(1,055,638)**	**195,005**	**6,007**	**201,012**

The notes on pages 39 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Notes:

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from operating activities including discontinued operation			
Loss before income tax		**(646,131)**	(39,032)
Adjustments for:			
Write-back of provision for impairment of amount due from a jointly controlled entity		**–**	(1,697)
Amortisation of other intangible assets	*17*	**11**	12
Amortisation of prepaid land lease payments	*13*	**116**	114
Depreciation of property, plant and equipment	*12*	**8,157**	7,330
Provision for impairment of trade receivables		**–**	81
Provision for impairment of other receivables		**–**	1,550
Provision for impairment of exploration and evaluation assets	*15*	**603,888**	–
Fair value gain on investment properties	*14*	**(491)**	(453)
Fair value gain on financial liabilities at fair value through profit or loss	*26*	**–**	(11,321)
Gain on acquisition of a subsidiary	*30*	**–**	(3)
Interest expenses		**12,233**	3,575
Interest income		**(16)**	(29)
Write-off and loss on disposals of property, plant and equipment		**71**	988
(Write-back of provision)/provision for inventory obsolescence		**(338)**	195
Share of profit of a jointly controlled entity		**–**	(48)
Share-based payment expenses		**4,354**	539
Operating loss before working capital changes		**(18,146)**	(38,199)
Changes in inventories		**6,927**	(448)
Changes in trade receivables		**1,043**	(1,268)
Changes in prepayments, deposits and other receivables		**4,499**	(3,993)
Changes in amount due from a jointly controlled entity		**–**	8,206
Changes in trade payables		**(10,667)**	(7,693)
Changes in trust receipt loans		**(2,801)**	(1,554)
Changes in accruals and other payables		**10,053**	2,969
Cash used in operations		**(9,092)**	(41,980)
Interest paid		**(12,233)**	(3,575)
Income taxes paid, net		**(791)**	(2,331)
Net cash used in operating activities		**(22,116)**	(47,886)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Interest received		**16**	29
Purchases of property, plant and equipment	*12*	**(11,832)**	(14,117)
Proceeds from disposal of property, plant and equipment		**–**	83
Acquisition of a subsidiary, net of cash acquired	*30*	**–**	73
Deposit received for the disposal of assets classified as held for sale	*23*	**38,234**	–
Net cash generated from/(used in) investing activities		**26,418**	(13,932)
Cash flows from financing activities			
Bank and other loans raised		**105,973**	83,241
Repayment of bank and other loans		**(109,776)**	(58,212)
Proceeds from exercise of share options		**–**	15
Proceeds from share placement	*28*	**12,000**	–
Costs for issuing shares on placement		**(368)**	–
Net cash generated from financing activities		**7,829**	25,044
Net increase/(decrease) in cash and cash equivalents		**12,131**	(36,774)
Cash and cash equivalents at 1 January		**13,002**	49,699
Effect of foreign exchange rate changes		**368**	77
Cash and cash equivalents at 31 December		**25,501**	13,002
Analysis of the balances of cash and cash equivalents at 31 December			
Bank and cash balances	*21*	**25,501**	13,002

The notes on pages 39 to 95 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

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

These financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These financial statements have been approved for issue by the board of directors of the Company on 28 March 2013.

2 BASIS OF PREPARATION

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

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (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 and investment properties which are carried at their fair values.

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

2.1 Going Concern

At 31 December 2012, the Group's current liabilities exceeded its current assets by approximately HK$30,894,000 and the Group recorded a loss of approximately HK$504,936,000 and a net operating cash outflow of approximately HK$22,116,000 during the year ended 31 December 2012. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

(1) Subsequent to 31 December 2012, the Group obtained borrowings of HK$15,000,000, which are secured by the personal guarantee from a director of the Company;

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

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

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

The directors of the Company are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2012. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2 BASIS OF PREPARATION *(Continued)*

2.1 Going Concern *(Continued)*

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

2.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The HKICPA has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

The adoption of this amendment to HKAS 12 does not have any significant impact to the results and financial position of the Group.

There are no other HKFRSs or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(i) Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (the "OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in the OCI.

(ii) HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP.

(iii) HKAS 19, 'Employee benefits', was amended in June 2011. The impact will be to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The adoption of this amendment to HKAS 19 would not be expected to have any significant impact to the results and financial position of the Group.

2 BASIS OF PREPARATION *(Continued)*

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

(b) New standards and interpretations not yet adopted *(Continued)*

(iv) HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the board of directors of the Company.

(v) HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of HKFRS 10 would not be expected to have any significant impact to the results and financial position of the Group.

(vi) HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Subsidiaries

(i) Consolidation

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries *(Continued)*

(i) Consolidation *(Continued)*

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

(1) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

(3) Disposal of subsidiaries

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

(ii) Separate financial statements

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries *(Continued)*

(ii) Separate financial statements *(Continued)*

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

(b) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

(iii) Translation on consolidation

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

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

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

— all resulting exchange differences are recognised in the foreign currency translation reserve.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Foreign currency translation *(Continued)*

(iv) Disposal of foreign operation and partial disposal

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

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

(c) Property, plant and equipment

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

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

Revaluation increases of leasehold land and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income.

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Prepaid land lease payments

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

(e) 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.

(f) Exploration and evaluation assets

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

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

(i) the exploration right is current;

(ii) the Group plans and has sufficient fund to continue the explorations; and

(iii) the technical feasibility and commercial viability of extracting a mineral resource are not yet demonstrable.

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

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

(g) 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.

(h) Trademark

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) 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.

(j) 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.

(k) 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.

(l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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.

(n) 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.

(o) Assets classified as held for sale

Non-current assets (or disposal groups) are presented as assets classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. The assets of disposal group have been presented as "assets classified as held for sale" in the consolidated statement of financial position at the reporting date. The comparative figures in the consolidated statement of financial position have not been restated. The post-tax profit or loss of the discontinued operation has been presented in a single amount in the consolidated income statement. The comparative figures in the consolidated income statement and the consolidated statement of comprehensive income have been restated to be consistent.

(p) 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) Trade and other payables

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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.

(r) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

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

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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.

(t) Current and deferred tax

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

(i) Current income tax

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

(ii) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(iii) Offsetting

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties

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

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

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

(2) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(v) Impairment of non-financial assets

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) 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.

(x) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in note 36.

(y) Segment reporting

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Fund availability

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

(b) Recoverability of exploration and evaluation assets

The directors are satisfied with the recoverability of exploration and evaluation assets with carrying value of approximately HK$180,904,000 (2011: HK$788,075,000), in aggregate, as at 31 December 2012 by reference to their respective fair values. For the year ended 31 December 2012, the Group recognised an impairment loss of approximately HK$603,888,000. The directors have appointed Grant Sherman Appraisal Limited, an independent firm of professional valuer, to determine the fair values of the mines owned by the Group. The fair values were developed primarily through the application of a market approach valuation methodology, where certain estimates and assumptions were used such as those relating to adjustments of coal quality, comparable acquisition of exploration and evaluation assets and scenario analysis in recovering the value of exploration and evaluation assets. The directors have exercised their judgements and have made their best estimate of all relevant factors to be included in the valuation model and are satisfied that the method of valuation is reflective of the current market conditions. However, such estimates and assumptions were subject to significant uncertainties and judgements. If any of the estimates and assumptions being used has changed, the aggregate recoverable amount of the exploration and evaluation assets would be different and thus may have an impact on the consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

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

(d) Share-based payment expenses

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

(e) Net realisable value of inventories

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

(f) Impairment loss for bad and doubtful debts

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

(g) Property, plant and equipment and depreciation

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

(h) Income and deferred taxes

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

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

5 FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

Included in the bank and cash balances of the Group is an aggregate amount of approximately HK$11,924,000 denominated in RMB at 31 December 2012 (2011: HK$5,908,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

At 31 December 2012, if Renminbi had strengthened/weakened by 5% (2011: 5%) against Hong Kong dollars with all other variables held constant, pre-tax loss for the year would have been approximately HK$596,000 higher/lower (2011: HK$295,000 higher/lower) mainly as a result of foreign exchange losses/gains on translation of cash and cash equivalents, trade receivables, trade payables and borrowings denominated in non-functional currency of the relevant group companies.

(b) Credit risk

The carrying amounts of the trade and other receivables, and bank balances 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 2012, the Group has certain concentration of credit risk as 26% (2011: 36%) and 66% (2011: 74%) of the total trade receivables were due from the Group's largest customer and the five largest customers at 31 December 2012, 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.

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

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) 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 2012					
Trade payables	**9,978**	**9,978**	**–**	**–**	**–**
Accruals and other payables	**71,890**	**71,890**	**–**	**–**	**–**
Borrowings and related interest payments	**59,216**	**55,357**	**644**	**1,933**	**1,282**
At 31 December 2011					
Trade payables	20,689	20,689	–	–	–
Accruals and other payables	23,407	23,407	–	–	–
Borrowings and related interest payments	67,489	62,987	644	1,933	1,925
Company					
At 31 December 2012					
Accruals and other payables	**18,972**	**18,972**	**–**	**–**	**–**
Borrowings and related interest payments	**5,835**	**5,835**	**–**	**–**	**–**
Due to subsidiaries	**60,993**	**60,993**	**–**	**–**	**–**
At 31 December 2011					
Accruals and other payables	8,326	8,326	–	–	–
Borrowings and related interest payments	6,481	6,481	–	–	–
Due to subsidiaries	60,000	60,000	–	–	–

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

(d) 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.

At December 2012, if interest rate had increased/decreased by 200 basis points, pre-tax loss for the year would have been approximately HK$287,000 (2011: HK$393,000) higher/lower mainly as a result of an increase/a decrease in interest rate applied to the Group's interest-bearing loans.

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(e) 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 Group had no financial instruments at 31 December 2012 and 31 December 2011.

(f) 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 manages 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 2012 and 2011.

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 2012 was 57.48% (2011: 13.93%).

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

6 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2012 HK$'000	2011 HK$'000 (Restated)
Turnover		
Sales of goods	**192,803**	184,550
Other income		
Fair value gain on investment properties *(note 14)*	**491**	453
Gain on disposal of moulds	**68**	178
Interest income	**2**	10
Rental income *(note 14)*	**979**	723
Others	**341**	525
	1,881	1,889

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 in its continuing operations that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Segment results exclude those from discontinued operation.

During the year, the Group entered into an agreement to sell the assets of Huanghuashan Coal Mine ("HCM") to an independent third party and the results of HCM have been separately presented as discontinued operation (note 22). Accordingly, comparative figures of the Group's segment results have been restated to present the discontinued operation separately.

Segment results do not include fair value gain on financial liabilities at fair value through profit or loss (note 26), 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, and assets classified as held for sale (note 22). Segment liabilities do not include borrowings, and accruals and other payables at corporate level.

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

Segment information *(Continued)*

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

	Exploration and mining		Toys and gift items		Total	
	2012 HK$'000	2011 HK$'000 (Restated)	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000 (Restated)
Year ended 31 December						
Revenue from external customers	**–**	–	**192,803**	184,550	**192,803**	184,550
Segment results	**(454,116)**	(4,948)	**(1,427)**	(18,737)	**(455,543)**	(23,685)
Depreciation and amortisation	**(222)**	(226)	**(6,467)**	(6,014)	**(6,689)**	(6,240)
Provision for impairment of exploration and evaluation assets	**(603,888)**	–	**–**	–	**(603,888)**	–
Interest income	**1**	1	**1**	8	**2**	9
Interest expenses	**–**	(252)	**(3,531)**	(2,668)	**(3,531)**	(2,920)
Share of profit of a jointly controlled entity	**–**	–	**–**	48	**–**	48
Income tax credit/(expense)	**150,972**	–	**(1,027)**	(1,155)	**149,945**	(1,155)
Write-back of impairment on amount due from a jointly controlled entity	**–**	–	**–**	1,697	**–**	1,697
At 31 December						
Segment assets	**189,704**	831,165	**148,263**	143,157	**337,967**	974,322
Segment liabilities	**(65,983)**	(188,523)	**(85,466)**	(92,562)	**(151,449)**	(281,085)
Additions to segment non-current assets	**–**	9,826	**1,137**	4,292	**1,137**	14,118

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

Segment information *(Continued)*

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

	2012 HK$'000	2011 HK$'000 (Restated)
Reconciliation of segment results:		
Total loss of reportable segments	**(455,543)**	(23,685)
Unallocated amount:		
Fair value gain on financial liabilities at fair value through profit or loss	**–**	11,321
Corporate finance costs	**(1,623)**	(254)
Other corporate income and expenses	**(22,323)**	(20,854)
Loss for the year from continuing operations	**(479,489)**	(33,472)
Reconciliation of segment assets:		
Total assets of reportable segments	**337,967**	974,322
Unallocated corporate assets		
Property, plant and equipment	**–**	271
Bank and cash balances	**32**	1,157
Prepayments, deposits and other receivables	**700**	675
	732	2,103
Assets classified as held for sale *(note 22(a))*	**38,234**	–
Total assets	**376,933**	976,425
Reconciliation of segment liabilities:		
Total liabilities of reportable segments	**151,449**	281,085
Unallocated corporate liabilities		
Borrowings	**5,500**	5,500
Accruals and other payables	**18,972**	8,373
	24,472	13,873
Total liabilities	**175,921**	294,958

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

Segment information *(Continued)*

(c) Geographical information:

	Revenue	
	2012	2011
	HK$'000	HK$'000
The PRC (including Hong Kong)	**1,940**	2,557
North America[1]	**172,514**	147,307
European Union[2]	**11,608**	25,309
Others[3]	**6,741**	9,377
	192,803	184,550

1 *North America includes the United States of America (the "USA") and Canada.*

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

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

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

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

(d) Analysis of revenue by category:

	2012	2011
	HK$'000	HK$'000
Sales of toys and gifts items	**192,803**	184,550

7 FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
		(Restated)
Interest expenses on:		
Bank loans wholly repayable within 5 years	**2,736**	2,378
Other loans wholly repayable within 5 years	**2,344**	702
Trust receipt loans	**74**	94
	5,154	3,174

8 INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas 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.

	2012 **HK$'000**	2011 HK$'000
Current tax:		
Hong Kong Profits Tax		
Provision for the year	**55**	187
Over-provision for prior years	**(42)**	–
	13	187
Overseas		
Provision for the year	**1,613**	1,097
Over-provision for prior years	**–**	(559)
	1,613	538
Total current tax	**1,626**	725
Deferred tax *(note 27)*	**(151,571)**	430
Income tax (credit)/expense	**(149,945)**	1,155

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

	2012 **HK$'000**	2011 HK$'000 (Restated)
Loss before tax	**(629,434)**	(32,317)
Tax at the applicable tax of 16.5% (2011: 16.5%)	**(103,857)**	(5,332)
Tax effect of income that is not taxable	**(122)**	(1,761)
Tax effect of expenses that are not deductible	**6,181**	8,094
Tax effect of utilisation of tax losses not previously recognised	**(1,050)**	(85)
Tax effect of unused tax losses not recognised	**781**	1,525
Over-provision for prior years	**(42)**	(559)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(51,836)**	(727)
Income tax (credit)/expense	**(149,945)**	1,155

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

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

	2012			2011		
	Amount before tax HK$'000	**Tax HK$'000**	**Amount after tax HK$'000**	Amount before tax HK$'000	Tax HK$'000	Amount after tax HK$'000
Exchange differences on translating foreign operations	**(2,601)**	**–**	**(2,601)**	30,629	–	30,629
Surplus on revaluation of properties	**12,631**	**(1,903)**	**10,728**	4,894	(662)	4,232
Other comprehensive income	**10,030**	**(1,903)**	**8,127**	35,523	(662)	34,861
Current tax		**–**			–	
Deferred tax *(note 27)*		**(1,903)**			(662)	
		(1,903)			(662)	

9 LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2012 HK$'000	2011 HK$'000 (Restated)
Amortisation of other intangible asset *(note 17)*	**11**	12
Auditor's remuneration	**2,000**	2,000
Write-back of provision for impairment of amount due from a jointly controlled entity[1]	**–**	(1,697)
(Write-back of provision)/provision for impairment of trade receivables *(note 20)*	**(81)**	81
Provision for impairment of other receivables[1]	**–**	1,550
Provision for impairment of exploration and evaluation assets[1] *(note 15)*	**603,888**	–
Cost of inventories sold *(note (a))*	**133,285**	146,208
Forfeiture of deposit[1]	**(1,227)**	–
Depreciation of property, plant and equipment *(note 12)*	**6,832**	6,520
Amortisation of prepaid land lease payments *(note 13)*	**116**	114
Fair value gain on financial liabilities at fair value through profit or loss[1] *(note 26)*	**–**	(11,321)
Write-off and loss on disposals of property, plant and equipment[1]	**71**	700
Minimum lease payments under operating leases in respect of leasehold land and buildings	**5,447**	5,075
Net foreign exchange (gain)/loss[1]	**(1,924)**	923
Research and development expenditure *(note (b))*	**596**	820
(Write-back of provision)/provision for inventories obsolescence	**(338)**	195
Staff costs (excluding directors' remuneration *(note 11)*)		
Salaries, bonus and allowance	**33,685**	35,295
Retirement benefits scheme contributions	**1,381**	1,491
Share-based payment expenses	**1,158**	127
	36,224	36,913

[1] *Included in other (losses)/gains, net*

9 LOSS FOR THE YEAR FROM CONTINUING OPERATIONS *(Continued)*

Notes:

(a) *Cost of inventories sold included approximately HK$14,711,000 (2011: HK$16,073,000), HK$2,872,000 (2011: HK$3,169,000), HK$596,000 (2011: HK$820,000) and HK$338,000 (2011: HK$195,000) relating to staff costs, depreciation of property, plant and equipment, research and development expenditure and (write-back of provision)/provision for inventory obsolescence respectively, which are included in the respective amounts disclosed separately above for each of these types of expenses for the year.*

(b) *Research and development expenditure included approximately HK$596,000 (2011: HK$715,000) relating to staff costs which are also included in the total amount of staff costs disclosed separately above for the year.*

10 LOSS PER SHARE

Basic loss per share is calculated by dividing the 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 loss per share and diluted loss per share are based on the following:

	2012 HK$'000	2011 HK$'000 (Restated)
Loss attributable to the equity holders of the Company		
Loss from continuing operations for the purpose of calculating basic loss per share	**(483,412)**	(33,824)
Less: fair value gain on financial liabilities at fair value through profit or loss *(note 26)*	**–**	(11,321)
Adjusted loss from continuing operations for the purpose of calculating diluted loss per share	**(483,412)**	(45,145)
Loss from discontinued operation attributable to equity holders of the Company	**(25,447)**	(6,715)
	(508,859)	(51,860)

	2012	2011 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**5,945,744,672**	5,717,546,742
— Effect on share consolidation subsequent to the end of the reporting period	**(4,756,595,738)**	(4,574,037,394)
	1,189,148,934	1,143,509,348
Effect of dilutive potential ordinary shares arising from outstanding share options and financial liabilities at fair value through profit or loss	**–**	51,698,448
— Effect on share consolidation subsequent to the end of the reporting period	**–**	(41,358,759)
	–	10,339,689
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**1,189,148,934**	1,153,849,037

10 LOSS PER SHARE *(Continued)*

The calculations of basic loss per share and diluted loss per share have taken into account the effect of share consolidation, which became effective after the end of the reporting period ended 31 December 2012 but before these consolidated financial statements were authorised for issue. Accordingly, the calculations of weighted average numbers of ordinary shares for the purpose of calculating basic loss per share and diluted loss per share were on the basis that every five issued and unissued shares of HK$0.02 each in the share capital of the Company be consolidated into one consolidated share of HK$0.1 each (note 36(a)).

For the year ended 31 December 2012, the average market price of the Company's ordinary shares was below the exercise price of the outstanding share options. Accordingly, the weighted average number of ordinary shares was not adjusted to compute the diluted loss per share for the effect of the share options.

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

11 REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

For the year ended 31 December 2012

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]	–	2,262	227	112	2,601
Mr. Yu Won Kong, Dennis[2]	–	3,900	1,116	14	5,030
Mr. Guo Tianjue (resigned on 31 August 2012)	–	2,600	1,116	–	3,716
Mr. Lam Kit Sun	–	1,186	227	14	1,427
Independent non-executive directors					
Mr. Lam Siu Lun, Simon	–	120	170	–	290
Mr. Zhang Xianmin	–	120	170	–	290
Mr. Jin Peihuang	–	120	170	–	290
	–	10,308	3,196	140	13,644

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

(a) Directors' remuneration *(Continued)*

For the year ended 31 December 2011

Name of director	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Hui Kee Fung[1]	–	2,105	–	210	2,315
Mr. Yu Won Kong, Dennis[2]	–	3,359	–	12	3,371
Mr. Guo Tianjue (resigned on 31 August 2012)	–	3,359	–	–	3,359
Mr. Lam Kit Sun	–	986	–	12	998
Independent non-executive directors					
Mr. Lam Siu Lun, Simon	–	120	137	–	257
Mr. Zhang Xianmin	–	120	137	–	257
Mr. Mohammed Ibrahim Munshi (retired on 26 May 2011)	–	48	137	–	185
Mr. Jin Peihuang	–	72	–	–	72
	–	10,169	411	234	10,814

1 *Chairman*

2 *Chief executive officer*

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2011: HK$Nil).

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

(b) Five highest paid individuals' remuneration

The five highest paid individuals during the year included four (2011: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2011: one) highest paid individual are as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries, allowances and benefits in kind	**1,690**	1,690
Retirement benefits scheme contributions	**169**	182
	1,859	1,872

The emoluments fell within the following band:

	Number of individuals	
	2012	2011
HK$1,500,001–HK$2,000,000	**1**	1
	1	1

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 (2011: HK$Nil).

12 PROPERTY, PLANT AND EQUIPMENT

	Group								
	Leasehold land and buildings HK$'000	Mining structure HK$'000	Leasehold improvements 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
Cost or valuation									
At 1 January 2011	45,933	17,832	3,044	17,083	41,192	6,110	5,185	2,322	138,701
Acquisition of a subsidiary *(note 30)*	–	–	254	–	222	480	–	–	956
Additions	1,912	–	123	853	1,813	268	–	9,148	14,117
Adjustment on revaluation to equity	3,619	–	–	–	–	–	–	–	3,619
Disposal/written off	(317)	–	–	(1,545)	(5,120)	(612)	–	–	(7,594)
Exchange difference	(1,600)	885	–	802	1,344	2,516	223	323	4,493
At 31 December 2011	**49,547**	**18,717**	**3,421**	**17,193**	**39,451**	**8,762**	**5,408**	**11,793**	**154,292**
Additions	**–**	**399**	**4**	**1,878**	**422**	**652**	**44**	**8,433**	**11,832**
Transfer	**–**	**15,475**	**–**	**–**	**–**	**–**	**–**	**(15,475)**	**–**
Adjustment on revaluation to equity	**9,880**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,880**
Disposal/written off	**–**	**–**	**–**	**(16)**	**(185)**	**–**	**(735)**	**–**	**(936)**
Exchange difference	**(5)**	**83**	**–**	**9**	**(1)**	**–**	**(5)**	**(39)**	**42**
Transferred to assets classified as held for sale	**(1,591)**	**(34,674)**	**–**	**(6,494)**	**–**	**(83)**	**(991)**	**(4,712)**	**(48,545)**
At 31 December 2012	**57,831**	**–**	**3,425**	**12,570**	**39,687**	**9,331**	**3,721**	**–**	**126,565**
Accumulated depreciation and impairment									
At 1 January 2011	–	1,556	2,332	10,657	30,847	4,604	3,121	–	53,117
Charge for the year	1,304	–	474	2,046	2,552	511	443	–	7,330
Adjustment on revaluation to equity	(1,275)	–	–	–	–	–	–	–	(1,275)
Disposal/written off	(29)	–	–	(1,405)	(4,589)	(500)	–	–	(6,523)
Exchange difference	–	77	1	(620)	1,022	1,017	131	–	1,628
At 31 December 2011	**–**	**1,633**	**2,807**	**10,678**	**29,832**	**5,632**	**3,695**	**–**	**54,277**
Charge for the year	**2,751**	**229**	**395**	**1,355**	**2,313**	**660**	**454**	**–**	**8,157**
Adjustment on revaluation to equity	**(2,751)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,751)**
Disposal/written off	**–**	**–**	**–**	**(9)**	**(185)**	**–**	**(671)**	**–**	**(865)**
Exchange difference	**–**	**49**	**–**	**6**	**6**	**1**	**(2)**	**–**	**60**
Impairment *(note 22(b))*	**–**	**8,750**	**–**	**–**	**–**	**–**	**–**	**–**	**8,750**
Transferred to assets classified as held for sale	**–**	**(10,661)**	**–**	**(2,141)**	**–**	**(22)**	**(233)**	**–**	**(13,057)**
At 31 December 2012	**–**	**–**	**3,202**	**9,889**	**31,966**	**6,271**	**3,243**	**–**	**54,571**
Carrying amount									
At 31 December 2012	**57,831**	**–**	**223**	**2,681**	**7,721**	**3,060**	**478**	**–**	**71,994**
At 31 December 2011	49,547	17,084	614	6,515	9,619	3,130	1,713	11,793	100,015

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Group								
	Leasehold land and buildings HK$'000	Mining structure HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2012									
At cost	**–**	**–**	**3,425**	**12,570**	**39,687**	**9,331**	**3,721**	**–**	**68,734**
At valuation	**57,831**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57,831**
	57,831	**–**	**3,425**	**12,570**	**39,687**	**9,331**	**3,721**	**–**	**126,565**
31 December 2011									
At cost	–	18,717	3,421	17,193	39,451	8,762	5,408	11,793	104,745
At valuation	49,547	–	–	–	–	–	–	–	49,547
	49,547	18,717	3,421	17,193	39,451	8,762	5,408	11,793	154,292

During the year ended 31 December 2012, the Company did not acquire or dispose of any property, plant and equipment, and depreciation of approximately HK$271,000 (2011: HK$407,000) was charged to income statement. At 31 December 2012, the carrying amount of leasehold improvements of the Company was HK$nil (2011: HK$271,000).

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

	Group	
	2012 HK$'000	2011 HK$'000
Held under medium term leases in Hong Kong *(note (a))*	**39,631**	29,195
Held under medium term leases in the PRC *(note (b))*	**18,200**	20,352
	57,831	49,547

Notes:

(a) The Group's medium term leasehold land and buildings in Hong Kong were revalued as at 31 December 2012 and 2011 by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professional valuer, on market value basis.

(b) The Group's medium term leasehold land and buildings in the PRC were revalued as at 31 December 2012 and 2011 by Grant Sherman on market value and depreciated replacement cost basis.

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 31 December 2012 would have been HK$19,259,000 (2011: HK$20,108,000).

At 31 December 2012, the Group's property, plant and equipment with an aggregate carrying amount of HK$56,440,000 (2011: HK$70,090,000) were pledged to secure banking facilities granted to the Group (note 25).

The Group's property, plant and equipment with carrying amount of approximately HK$35,488,000 (note 22) was transferred to assets classified as held for sale during the year ended 31 December 2012 (2011: HK$Nil).

Depreciation expenses of approximately HK$2,872,000 (2011: HK$3,169,000) and HK$3,960,000 (2011: HK$3,351,000) have been charged in "cost of sales" and "administrative expenses" in the consolidated income statement, respectively.

Depreciation expenses arising from continuing operations and discontinued operation amounted to approximately HK$6,832,000 (note 9) and HK$1,325,000 (2011: HK$6,520,000 and HK$810,000), respectively.

13 PREPAID LAND LEASE PAYMENTS

	Group HK$'000
Cost	
At 1 January 2011	5,516
Exchange difference	274
At 31 December 2011	5,790
Exchange difference	(1)
At 31 December 2012	5,789
Accumulated amortisation	
At 1 January 2011	762
Charge for the year *(note 9)*	114
Exchange difference	40
At 31 December 2011	916
Charge for the year *(note 9)*	116
Exchange difference	2
At 31 December 2012	1,034
Carrying amount	
At 31 December 2012	4,755
At 31 December 2011	4,874

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

13 PREPAID LAND LEASE PAYMENTS *(Continued)*

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

	Group	
	2012	2011
	HK$'000	HK$'000
Held under medium term leases in the PRC	**4,755**	4,874

At 31 December 2012, the Group's prepaid land lease payments with an aggregate carrying amount of approximately HK$4,755,000 (2011: HK$4,874,000) were pledged to secure banking facilities granted to the Group (note 25).

At 31 December 2012, prepaid land lease payments of approximately HK$4,635,000 (2011: HK$4,752,000) were classified as non-current assets while approximately HK$120,000 (2011: HK$122,000) were classified as current assets and grouped under "prepayments, deposits and other receivables" in the consolidated statement of financial position.

14 INVESTMENT PROPERTIES

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**9,358**	8,500
Exchange difference	**1**	405
Fair value gain *(note 6)*	**491**	453
At 31 December	**9,850**	9,358

The Group's investment properties are analysed as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Held under medium term leases in Hong Kong	**650**	600
Held under medium term leases in the PRC	**9,200**	8,758
	9,850	9,358

The Group's investment properties were revalued as at 31 December 2012 and 2011 by Grant Sherman on market value basis.

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

Rental income derived from investment properties under operating leases amounted to approximately HK$979,000 (2011: HK$723,000) for the year ended 31 December 2012 (note 6). There was no contingent rental recognised during the years ended 31 December 2012 and 2011.

At 31 December 2012, the Group's investment properties with an aggregate carrying amount of approximately HK$9,200,000 (2011: HK$8,758,000) were pledged to secure banking facilities granted to the Group (note 25).

15 EXPLORATION AND EVALUATION ASSETS

	Group HK$'000
Cost	
At 1 January 2011	1,307,615
Exchange difference	64,841
At 31 December 2011	1,372,456
Exchange difference	(112)
At 31 December 2012	1,372,344
Accumulated impairment loss	
At 1 January 2011	556,772
Exchange difference	27,609
At 31 December 2011	584,381
Impairment loss *(note 9)*	603,888
Exchange difference	3,171
At 31 December 2012	1,191,440
Carrying amount	
At 31 December 2012	180,904
At 31 December 2011	788,075

The exploration and evaluation assets are attributable to Guerbanhada Coal Mine ("GCM") and Bayanhushuo Coal Field ("BCF"). At 31 December 2012, the carrying amount is attributable to GCM of approximately HK$46,292,000 (2011: HK$249,801,000) and BCF of approximately HK$134,612,000 (2011: HK$538,274,000).

The current licence period of the exploration right of GCM and BCF is from 23 September 2011 to 22 September 2013, and from 4 July 2012 to 4 July 2014, respectively.

In April 2012, the Development and Reform Commission of Inner Mongolia Autonomous Region has issued a consultation paper (內蒙古自治區人民政府關於完善煤炭資源管理的通知(徵求意見稿)) (the "Consultation Paper") with an objective to adjust and enhance the government policy in managing the coal resources in Inner Mongolia Autonomous Region. It is expected that the Group may take longer time to get the approval from the governments of Inner Mongolia Autonomous Region and the PRC in applying the mining licences in the future. The Consultation Paper has yet to become legally effective and the Group will closely monitor the development of the Consultation Paper and assess the impact to the Group.

The carrying values of the exploration and evaluation assets were tested for impairment as at 31 December 2012. The recoverable amounts of the exploration and evaluation assets estimated by Grant Sherman, of which the estimates, assumptions and judgments relating to the impairment tests are discussed in note 4(b), were significantly lower than their carrying values, and accordingly, an impairment loss of approximately HK$603,888,000 has been charged in "other (losses)/gains, net" for the year ended 31 December 2012 (2011: HK$Nil).

The impairment loss was made mainly due to (i) the slower than originally expected progress in getting the approval on the master planning (總體規劃) of GCM and BCF from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC; (ii) the expectation that it may take longer time to get the approval from the governments of Inner Mongolia Autonomous Region and the PRC in applying the mining licences in the future as a result of the release of the Consultation Paper; and (iii) the decrease in coal price in the PRC during the year ended 31 December 2012.

16 MINING RIGHT

	Group HK$'000
Cost	
At 1 January 2011	36,707
Exchange difference	1,825
At 31 December 2011	38,532
Exchange difference	(4)
Transferred to assets classified as held for sale *(note 22)*	(38,528)
At 31 December 2012	–
Accumulated amortisation and impairment loss	
At 1 January 2011	36,707
Exchange difference	1,825
At 31 December 2011	38,532
Exchange difference	(4)
Transferred to assets classified as held for sale *(note 22)*	(38,528)
At 31 December 2012	–
Carrying amount	
At 31 December 2012	–
At 31 December 2011	–

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

During the year ended 31 December 2012, the Economic and Information Committee Office of Inner Mongolia Autonomous Region (內蒙古自治區經濟和信息化委員會辦公室) has issued a consultation paper to propose not to renew, after 1 January 2013, any mining licences with annual production capacity less than 450,000 tonnes. The current annual production capacity of the mining licence of HCM is 300,000 tonnes. Shall the consultation paper become legally effective, the Group may need to invest further in HCM to increase the annual production capacity to at least 450,000 tonnes. In view of the above proposed policy, on 14 November 2012, Heng Yuan entered into an agreement pursuant to which Heng Yuan agreed to sell the assets of HCM, including but not limited to its mining right and property, plant and equipment (the "Disposal Assets") to an independent third party at a consideration of RMB31,000,000. As at 31 December 2012, the above transaction has not been completed. Therefore, the Disposal Assets are reclassified as "assets classified as held for sale" in the consolidated statement of financial position in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operation" (note 22).

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

17 OTHER INTANGIBLE ASSET

	Group
	Trademark
	HK$'000
	(note a)
Cost	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	1,155
Accumulated amortisation	
At 1 January 2011	50
Amortisation for the year *(note 9)*	12
At 31 December 2011	62
Amortisation for the year *(note 9)*	11
At 31 December 2012	73
Carrying amount	
At 31 December 2012	1,082
At 31 December 2011	1,093

Note:

(a) *The amortisation of approximately HK$11,000 (2011: HK$12,000) (note 9) has been included in "selling and distribution costs" in the consolidated income statement.*

18 INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted investments at cost	**1,001,768**	1,001,768
Due from subsidiaries	**284,773**	275,950
Less: Impairment losses	**(1,000,795)**	(524,480)
	285,746	753,238

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

18 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries at 31 December 2012 are as follows:

Name	Place of incorporation/ registration and kind of legal entity	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities and place of operation
			Directly	Indirectly	
Legend Wealth Holdings Limited	British Virgin Islands ("BVI"), Limited liability company	50,500 ordinary shares of US$1 each	100%	–	Investment holding, Hong Kong
King Wish Limited	BVI, Limited liability company	1 ordinary share of US$1	100%	–	Investment holding, Hong Kong
Super Dragon Management Limited	BVI, Limited liability company	1 ordinary share of US$1	100%	–	Investment holding, Hong Kong
Bestever Developments Limited	BVI, Limited liability company	100 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Better Sourcing Worldwide Limited	Hong Kong, Limited liability company	100 ordinary shares of HK$1 each	–	51%	Trading of gifts and toys, Hong Kong
Kiu Hung Industries Limited	Hong Kong, Limited liability company	1,000 ordinary shares of HK$1 each	–	100%	Trading of gifts and toys, Hong Kong
Kiu Hung Toys Company Limited	Hong Kong, Limited liability company	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%	Investment holding, Hong Kong
Newgary Development Limited	Hong Kong, Limited liability company	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%	Property holding, Hong Kong
Toland International Limited	Hong Kong, Limited liability company	4,200,000 ordinary shares of HK$1 each	–	70%	Trading of flags and garden products, Hong Kong
福建奇嘉禮品玩具有限公司 (Fujian Kcare Giftoys Co., Ltd.[†])	The PRC, Limited liability company	RMB10,000,000	–	100%	Manufacture and trading of gifts and toys, The PRC
福建嘉雄玩具有限公司 (Fujian Ka Hung Toys Co., Ltd.[†])	The PRC, Limited liability company	RMB10,000,000	–	100%	Manufacture and trading of gifts and toys, The PRC
內蒙古銘潤峰能源有限公司 (Inner Mongolia Mingrunfeng Energy Co., Ltd.[†])	The PRC, Limited liability company	RMB53,000,000	–	100%	Exploration and mining, The PRC

18 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and kind of legal entity	Particulars of issued/ registered capital	Percentage of equity interests held by the Company		Principal activities and place of operation
			Directly	Indirectly	
通遼市恒源礦業有限責任公司 (Tongliao City Heng Yuan Mining Company Limited[1])	The PRC, Limited liability company	RMB56,014,705	–	100%	Exploration and mining, The PRC
Bright Asset Investments Limited	BVI, Limited liability company	10,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
First Choice Resources Limited	BVI, Limited liability company	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Growth Gain Investments Limited	BVI, Limited liability company	100 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Jumplex Investments Limited	BVI, Limited liability company	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Lucky Dragon Resources Limited	BVI, Limited liability company	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Top Point Investments Limited	BVI, Limited liability company	100 ordinary shares of US$1 each	–	100%	Investment in securities, Hong Kong
Wise House Limited	BVI, Limited liability company	36,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Marketing Resource Group Inc.	The USA, Limited liability company	350,000 ordinary shares of US$1 each	–	51%	Trading of flags and garden products, The USA

[1] *For identification purpose*

19 INVENTORIES

	Group	
	2012 **HK$'000**	2011 HK$'000
Raw materials	**10,572**	15,755
Work in progress	**4,437**	2,668
Finished goods	**7,737**	11,949
	22,746	30,372
Less: Provision for inventories obsolescence	**(3,915)**	(4,253)
	18,831	26,119

20 TRADE RECEIVABLES

	Group 2012 HK$'000	2011 HK$'000
Trade receivables	**17,049**	18,174
Less: provision for impairment	**–**	(81)
Trade receivables, net	**17,049**	18,093

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

The movements in provision for trade receivables are as follows:

	Group 2012 HK$'000	2011 HK$'000
At 1 January	**81**	60
Provision for impairment *(note 9)*	**–**	81
Receivables written off during the year as uncollectible *(note 9)*	**(81)**	(60)
At 31 December	**–**	81

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 2012 HK$'000	2011 HK$'000
Within 30 days	**10,165**	13,914
31 days to 90 days	**5,256**	2,305
91 days to 180 days	**1,075**	1,789
181 days to 360 days	**368**	83
Over 360 days	**185**	2
	17,049	18,093

20 TRADE RECEIVABLES *(Continued)*

At 31 December 2012, trade receivables of approximately HK$6,363,000 (2011: HK$5,400,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables, based on the number of overdue days, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**5,100**	2,343
91 days to 180 days	**853**	2,851
181 days to 360 days	**215**	195
Over 360 days	**195**	11
	6,363	5,400

At 31 December 2012, trade receivables of approximately HK$nil (2011: HK$81,000) were impaired. The impaired receivables relate to customers which are unlikely to be recovered. The ageing analysis of these trade receivables based on due date is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
91 days to 180 days	**–**	79
181 days to 360 days	**–**	2
	–	81

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

	Group	
	2012	2011
	HK$'000	HK$'000
US$	**16,933**	18,045
RMB	**116**	48
	17,049	18,093

At 31 December 2012 and 2011, the fair value of the trade receivables approximate their carrying value.

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

At 31 December 2012, the Group's trade receivables with an aggregate carrying amount of approximately HK$3,463,000 (2011: HK$3,145,000) were pledged to secure banking facilities granted to the Group (note 25).

21 BANK AND CASH BALANCES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**23,418**	13,002	**32**	1,157
Maximum exposure to credit risk	**23,332**	12,796	**31**	1,155

Bank and cash balances are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**603**	1,555	**32**	1,155
RMB	**9,841**	5,908	**–**	–
US$	**12,974**	5,539	**–**	2
	23,418	13,002	**32**	1,157

The analysis of bank and cash balances for the purpose of the consolidated statement of cash flows is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Cash and cash equivalents	**25,501**	13,002
Less: assets classified as held for sale *(note 22)*	**(2,083)**	–
Bank and cash balances	**23,418**	13,002

22 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

On 14 November 2012, the Group entered into an agreement to sell the assets of HCM. The assets related to HCM have been presented as held for sale following the receipt of the final payment of the sales consideration on 30 December 2012. The transaction has not been completed as certain pre-conditions have not been fulfilled as at 31 December 2012. A deposit of approximately HK$38,234,000 has been received before 31 December 2012 (note 23).

	Group	
	2012	2011
	HK$'000	HK$'000
Operating cash flows	**(10,269)**	(9,960)
Investing cash flows	**26,542**	(10,741)
Financing cash flows	**(12,003)**	15,640
Total cash flows	**4,270**	(5,061)

22 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION *(Continued)*

(a) Assets classified as held for sale

	Group	
	2012	2011
	HK$'000	HK$'000
Property, plant and equipment *(note 12)*	**35,488**	–
Mining right *(note 16)*	**–**	–
Inventories	**663**	–
Bank and cash balances *(note 21)*	**2,083**	–
Total *(notes 6(b) and 23)*	**38,234**	–

(b) Cumulative income or expense recognised in other comprehensive income relating to assets classified as held for sale

	Group	
	2012	2011
	HK$'000	HK$'000
Foreign exchange translation adjustments	**30**	1,865
Total	**30**	1,865

Analysis of the results of discontinued operation, and the impairment loss for assets initially classified as held for sale, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Revenue	**3,007**	622
Expenses	**(19,704)**	(7,337)
Loss before tax from discontinued operation	**(16,697)**	(6,715)
Tax	**–**	–
Loss after tax from discontinued operation	**(16,697)**	(6,715)
Impairment loss for assets initially classified as held for sale *(note 12)*	**(8,750)**	–
Loss for the year from discontinued operation	**(25,447)**	(6,715)
Loss for the year from discontinued operation attributable to:		
— Equity holders of the Company	**(25,447)**	(6,715)
Loss for the year from discontinued operation	**(25,447)**	(6,715)

23 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**9,978**	20,689	**–**	–
Accruals and payables	**33,655**	23,407	**18,972**	8,326
Deposit received for the disposal of assets classified as held for sale *(note 22(a))*	**38,234**	–	**–**	–
	81,867	44,096	**18,972**	8,326

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**6,221**	7,362
31 days to 90 days	**2,027**	7,372
91 days to 180 days	**1,258**	4,920
181 days to 360 days	**121**	715
Over 360 days	**351**	320
	9,978	20,689

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

	Group	
	2012	2011
	HK$'000	HK$'000
HK$	**7**	65
US$	**3,615**	6,315
RMB	**6,356**	14,309
	9,978	20,689

At 31 December 2012 and 2011, the fair value of the trade payables, accruals and other payables approximate their carrying value.

24 DUE TO SUBSIDIARIES

The amounts due to subsidiaries under current liabilities of the Company are unsecured, interest free and repayable on demand.

25 BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans	**40,671**	37,537	**–**	–
Trust receipt loans	**4,491**	7,293	**–**	–
Other loans	**11,543**	18,575	**5,500**	5,500
Total borrowings	**56,705**	63,405	**5,500**	5,500
Secured *(note (a))*	**47,162**	54,231	**2,000**	2,000
Unsecured	**9,543**	9,174	**3,500**	3,500

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

At 31 December 2012 and 2011, the borrowings were repayable within one year.

Notes:

(a) Facilities

At 31 December 2012, the Group's borrowings were secured by:

(i) charges over certain of the Group's property, plant and equipment, prepaid land lease payments, investment properties and trade receivables (notes 12, 13, 14 and 20) of aggregate carrying value of approximately HK$73,858,000 (2011: HK$86,867,000);

(ii) personal guarantee by the Company's directors (note 35(iii)) of approximately HK$10,254,000 (2011: HK$10,691,000); and

(iii) personal guarantee by a director of the Company's indirect non-wholly owned subsidiary (note 35(iii)) of approximately HK$3,361,000 (2011: HK$2,503,000).

25 BORROWINGS *(Continued)*

Notes: (Continued)

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

	Group	
	2012	2011
Bank loans		
— Floating rate (2012: HK$3,763,000; 2011: HK$4,196,000)	**Prime rate**	Prime rate
— Floating rate (2012: HK$3,361,000; 2011: HK$2,503,000)	**Prime rate +1%**	Prime rate +2.25%
— Floating rate (2012: HK$2,713,000; 2011: HK$Nil)	**LIBOR+2%**	N/A
— Fixed rate (2012: HK$6,167,000; 2011: HK$$6,168,000)	**7.80%**	8.53%
— Fixed rate (2012: HK$24,667,000; 2011: HK$24,670,000)	**8.53%**	6.94%
Trust receipt loans		
— Floating rate (2012: HK$Nil; 2011: 2,798,000)	**N/A**	LIBOR+4.25%
— Floating rate (2012: HK$4,491,000; 2011: 4,495,000)	**Prime rate**	Prime rate
Other loans		
— Fixed rate (2012: HK$5,500,000; 2011: HK$12,901,000)	**30%**	30%
— Floating rate (2012: HK$Nil; 2011: HK$5,674,000)	**N/A**	Benchmark interest rate[#]+25%

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

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

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
US$	**6,074**	5,300	**–**	–
HK$	**13,754**	14,192	**5,500**	5,500
RMB	**36,877**	43,913	**–**	–
	56,705	63,405	**5,500**	5,500

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

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

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

	Group and Company		
	Altered CN1	**CN2**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2011	220,175	25,110	245,285
Converted into ordinary shares of the Company during the year	(210,013)	(23,951)	(233,964)
Fair value gain *(notes 9 and 10)*	(10,162)	(1,159)	(11,321)
At 31 December 2011	–	–	–

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

During the year ended 31 December 2011, the Company issued 754,721,872 ordinary shares of HK$0.02 each (note 28(c)) in relation to the full conversion of Altered CN1 and CN2 at the conversion price of HK$0.25 per share. Accordingly, the carrying value of Altered CN1 and CN2 was decreased by approximately HK$233,964,000 in aggregate.

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

The above information has not taken into account the effect of share consolidation, which was completed after 31 December 2012, as detailed in note 36(a).

27 DEFERRED INCOME TAX

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

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

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of the year	**(187,059)**	(177,270)
Credited/(charged) to consolidated income statement *(note 8)*	**151,571**	(430)
Charged to equity *(note 8)*	**(1,903)**	(662)
Acquisition of a subsidiary *(note 30)*	**–**	(89)
Exchange difference	**832**	(8,608)
End of the year	**(36,559)**	(187,059)

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

Deferred income tax assets:

	Group		
	Provision for amount due from a jointly controlled entity	**Decelerated tax depreciation**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2011	280	–	280
Charged to consolidated income statement	(280)	–	(280)
At 31 December 2011 and 1 January 2012	**–**	**–**	**–**
Credited to consolidated income statement	**–**	**411**	**411**
At 31 December 2012	**–**	**411**	**411**

27 DEFERRED INCOME TAX *(Continued)*

Deferred income 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 2011	–	7,320	170,230	177,550
Acquisition of a subsidiary *(note 30)*	89	–	–	89
Charged to equity	–	662	–	662
Charged to consolidated income statement	–	150	–	150
Exchange difference	–	167	8,441	8,608
At 31 December 2011 and 1 January 2012	**89**	**8,299**	**178,671**	**187,059**
Charged to equity	**–**	**1,903**	**–**	**1,903**
Credited to consolidated income statement	**(89)**	**(99)**	**(150,972)**	**(151,160)**
Exchange difference	**–**	**–**	**(832)**	**(832)**
At 31 December 2012	**–**	**10,103**	**26,867**	**36,970**

The Group has tax losses arising in Hong Kong of approximately HK$6,425,000 (2011: HK$6,569,000) and the PRC of approximately HK$15,530,000 (2011: HK$15,530,000), which are available for offsetting against future taxable profits of the subsidiaries in which the losses arose, respectively. Tax losses of approximately HK$21,955,000 (2011: HK$16,666,000) is subject to further approval by relevant tax authorities. The tax losses arising in Hong Kong have no expiry date. The tax losses arising in the PRC are due to expire within five years. No deferred tax assets have been recognised due to the unpredictability of future taxable profit of these subsidiaries.

28 SHARE CAPITAL

	Note	Number of shares 2012	Number of shares 2011	Ordinary share capital 2012 HK$'000	Ordinary share capital 2011 HK$'000
Authorised:					
Ordinary shares of HK$0.02 each		**10,000,000,000**	10,000,000,000	**200,000**	200,000
Issued and fully paid:					
At beginning of year		**5,769,304,672**	5,014,426,800	**115,386**	100,289
Issue of shares on					
— On placement	*(note (a))*	**200,000,000**	–	**4,000**	–
— Exercise of share options	*(note (b))*	**–**	156,000	**–**	3
— Conversion of convertibles notes	*(note (c))*	**–**	754,721,872	**–**	15,094
At end of year		**5,969,304,672**	5,769,304,672	**119,386**	115,386

Notes:

(a) *On 1 February 2012, the Company entered into a placing and subscription agreement with a placing agent and Legend Win Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company ("Legend Win"), for (i) the placing of up to an aggregate of 200,000,000 ordinary shares of HK$0.02 each of the Company to independent investors at the placing price of HK$0.06 per share; and (ii) the subscription of up to 200,000,000 new ordinary shares of HK$0.02 each of the Company by Legend Win at the subscription price of HK$0.06 per share. The subscription of 200,000,000 new ordinary shares of the Company was completed on 13 February 2012. The premium on the issue of these new ordinary shares of HK$8,000,000 (note 29(b)) was credited to the Company's share premium account for the year ended 31 December 2012.*

(b) *During the year ended 31 December 2011, the Company issued 156,000 (note 31) ordinary shares of HK$0.02 each in relation to the exercise of the share options at an exercise price of HK$0.1016 per share. The difference between the exercise price of the share options and the par value of the issued ordinary shares of the Company of approximately HK$12,000 (note 29(b)) was credited to the Company's share premium account. In addition, the relevant portion of share-based payment reserve in relation to the share options exercised during the year ended 31 December 2011 of approximately HK$11,000 (note 29(b)) was transferred to the Company's share premium account.*

(c) *On 25 January 2011, the Company issued 754,721,872 (note 26) ordinary shares of HK$0.02 each in relation to the conversion of the convertible notes at the conversion price of HK$0.25 each per share. The difference between the fair value of the conversion shares on the issue date and the par value of the issued ordinary shares of the Company of approximately HK$218,870,000 (note 29(b)) was credited to the Company's share premium account.*

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

(e) *The above information has not taken into account the effect of share consolidation, which was completed after 31 December 2012, as detailed in note 36(a).*

29 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$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	758,054	125,161	12,468	(539,509)	356,174
Total comprehensive loss for the year	–	–	–	(9,646)	(9,646)
Transactions with equity holders					
Issue of shares upon exercise of share options *(note 28(b))*	23	–	(11)	–	12
Conversion of convertible notes to ordinary shares *(note 28(c))*	218,870	–	–	–	218,870
Recognition of share-based payment *(note 31)*	–	–	539	–	539
Release on forfeiture of share options *(note 31)*	–	–	(694)	694	–
Total transactions with equity holders	218,893	–	(166)	694	219,421
At 31 December 2011	976,947	125,161	12,302	(548,461)	565,949
Total comprehensive loss for the year	–	–	–	(496,885)	(496,885)
Transactions with equity holders					
Issue of shares on placement *(note 28(a))*	8,000	–	–	–	8,000
Recognition of share-based payment *(note 31)*	–	–	4,354	–	4,354
Release on expiry/forfeiture of share options *(note 31)*	–	–	(9,086)	9,086	–
Total transactions with equity holders	8,000	–	(4,732)	9,086	12,354
At 31 December 2012	984,947	125,161	7,570	(1,036,260)	81,418

Loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$496,885,000 (2011: HK$9,646,000).

30 ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

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

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

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

Revenue included in the consolidated income statement during the period from 7 July 2011 to 31 December 2011 contributed by MRG was approximately HK$8,555,000. MRG made a loss of approximately HK$978,000 over the same period.

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

31 SHARE-BASED PAYMENT

The Company operates a share option scheme (the "Share Option 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 HK$0.02 each in the share capital of the Company (each a "Share"). The Share Option 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 Share Option 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 Share Option 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 Share Option Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option 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 Share Option 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
2009(b) *(note (c))*	27 October 2009	9,000,000	HK$0.6000	27 October 2011 to 27 October 2012
2009(c) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2009 to 21 December 2010
2009(d) *(note (d))*	21 December 2009	3,000,000	HK$0.4240	21 December 2010 to 21 December 2012
2009(e) *(note (d))*	21 December 2009	3,000,000	HK$0.6000	21 December 2011 to 21 December 2012
2010(a) *(note (e))*	11 January 2010	34,000,000	HK$0.4000	11 January 2010 to 11 January 2012
2010(b) *(note (e))*	11 January 2010	34,000,000	HK$0.6000	11 January 2010 to 11 January 2012
2012(a) *(note (f))*	29 March 2012	114,000,000	HK$0.0644	29 March 2012 to 28 March 2015
2012(b) *(note (f))*	29 March 2012	114,000,000	HK$0.0773	29 March 2012 to 28 March 2015
Total		447,260,000		

31 SHARE-BASED PAYMENT *(Continued)*

Notes:

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

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

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

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

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

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

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

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

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

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

(f) *The share options granted to executive directors, independent non-executive directors and employees on 29 March 2012 are exercisable in the following manner:*

Exercise period	Maximum exercisable percentage	
	2012(a)	2012(b)
29 March 2012 to 28 March 2015	**100%**	**100%**

31 SHARE-BASED PAYMENT *(Continued)*

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

For the year ended 31 December 2012

	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year	Expired 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)	41,262,600	–	–	–	(964,000)	40,298,600	40,298,600	HK$0.1016
	2007	3,300,000	–	–	–	–	3,300,000	3,300,000	HK$0.7400
	2009(a)	6,000,000	–	–	(6,000,000)	–	–	–	HK$0.4000
	2009(b)	6,000,000	–	–	(6,000,000)	–	–	–	HK$0.6000
	2009(d)	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)	–	–	–	HK$0.4000
	2010(b)	34,000,000	–	–	(34,000,000)	–	–	–	HK$0.6000
	2012(a)	–	114,000,000	–	–	(29,500,000)	84,500,000	84,500,000	HK$0.0644
	2012(b)	–	114,000,000	–	–	(29,500,000)	84,500,000	84,500,000	HK$0.0773
		136,042,600	228,000,000	–	(86,000,000)	(59,964,000)	218,078,600	218,078,600	
Weighted average closing price		–	–	–	–	–	–	–	
Weighted average exercise price		HK$0.3695	HK$0.0709	–	HK$0.5008	HK$0.0713	HK$0.0874	HK$0.0874	

For the year ended 31 December 2011

	Share option type	Outstanding at 1 January	Granted during the year	Exercised during the year *(Note 28(b))*	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)	41,418,600	–	(156,000)	–	41,262,600	41,262,600	HK$0.1016
	2007	3,300,000	–	–	–	3,300,000	3,300,000	HK$0.7400
	2009(a)	9,000,000	–	–	(3,000,000)	6,000,000	6,000,000	HK$0.4000
	2009(b)	9,000,000	–	–	(3,000,000)	6,000,000	6,000,000	HK$0.6000
	2009(d)	3,000,000	–	–	–	3,000,000	3,000,000	HK$0.4240
	2009(e)	3,000,000	–	–	–	3,000,000	3,000,000	HK$0.6000
	2010(a)	34,000,000	–	–	–	34,000,000	34,000,000	HK$0.4000
	2010(b)	34,000,000	–	–	–	34,000,000	34,000,000	HK$0.6000
		142,198,600	–	(156,000)	(6,000,000)	136,042,600	136,042,600	
Weighted average closing price		–	–	HK$0.2249	–	–	–	
Weighted average exercise price		HK$0.3747	–	HK$0.1016	HK$0.5000	HK$0.3695	HK$0.3695	

31 SHARE-BASED PAYMENT *(Continued)*

The estimated fair value of options granted under the Share Option Scheme on 19 June 2006, 5 July 2007, 27 October 2009, 21 December 2009, 11 January 2010 and 29 March 2012 measured at date of grant, were approximately HK$8,604,000, HK$1,077,000, HK$2,081,000, HK$983,000, HK$5,749,000 and HK$4,354,000 respectively. The following significant assumptions and estimates were used by the independent valuer to derive the fair value of the options granted during the year ended 31 December 2012, using the Black-Scholes Model:

	Date of grant 29 March 2012	
	2012(a)	**2012(b)**
Expected volatility	58.46%	58.46%
Expected life	3	3
Risk-free interest rate	0.33%	0.33%
Expected dividend yield	Nil	Nil

The Group recognised HK$4,354,000 (2011: HK$539,000) (note 29(b)) share-based payment expenses in the consolidated income statement for the year ended 31 December 2012, of which the amount has been included as staff costs, and the corresponding amount has been credited to share-based payment reserve.

If the options remain unexercised after the exercise period, the options expire. Options are forfeited if the employee leaves the Group before the options expire. For the year ended 31 December 2012, the total carrying value of expired/forfeited options is approximately HK$9,086,000 (2011: HK$694,000) (note 29(b)) which has been transferred from share-based payment reserve to accumulated losses.

The above information has not taken into account the effect of share consolidation, which was completed after 31 December 2012, as detailed in note 36(a).

32 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2011: HK$Nil).

33 CAPITAL COMMITMENTS

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

	Group	
	2012 HK$'000	2011 HK$'000
Property, plant and equipment	**–**	808

34 LEASE COMMITMENTS

At 31 December 2012, the Group's future aggregate minimum lease receivables and payables under non-cancellable operating leases are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
As lessor:		
No later than 1 year	**182**	112
As lessee:		
No later than 1 year	**4,240**	3,940
Later than 1 year and no later than 5 years	**1,767**	2,964
Later than 5 years	**91**	95
	6,098	6,999

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

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

35 RELATED PARTY TRANSACTIONS

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

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

	2012	2011
	HK$'000	HK$'000
Sales of goods to a jointly controlled entity *(note a)*	**–**	3,987
Product development, sale and marketing services fee paid to a related company *(note b)*	**1,663**	1,663

Notes:

(a) A shareholder of the jointly controlled entity, which became an indirect non-wholly owned subsidiary during the year ended 31 December 2011, is also the beneficial owner of 30% equity interest in the Company's subsidiary making the sales.

(b) The sole owner of the related company is also the director and beneficial owner of 49% (2011: 49%) equity interest in the Company's subsidiary paying for the services.

35 RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Key management compensation

	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**14,505**	14,061
Share-based payments	**3,373**	598
Retirement benefits scheme contributions	**470**	544
	18,348	15,203

(iii) Guarantee provided by related parties

At 31 December 2012, the Group's borrowings of approximately HK$10,254,000 (2011: HK$10,691,000) and HK$3,361,000 (2011: HK$2,503,000) were secured by personal guarantee by the Company's directors and a director of the Company's indirect non-wholly owned subsidiary, respectively (note 25).

36 EVENTS AFTER THE REPORTING PERIOD

(a) Share Consolidation

On 14 January 2013, the board of directors of the Company put forward to the shareholders of the Company (the "Shareholders") a proposal of share consolidation (the "Share Consolidation") on the basis that every five issued and unissued shares of HK$0.02 each in the share capital of the Company be consolidated into one consolidated share of HK$0.1 each. A circular containing, among other things, further details on the Share Consolidation together with a notice of extraordinary general meeting (the "EGM"), was dispatched to the Shareholders on 22 January 2013.

Results of the EGM

An ordinary resolution to approve the Share Consolidation as set out in the notice of EGM was duly passed by the Shareholders by way of poll at the EGM held on 7 February 2013.

36 EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(a) Share Consolidation *(Continued)*

Adjustments in relation to share options

As a result of the Share Consolidation, adjustments were made to the exercise price of and the number of the outstanding share options (the "Adjustments") under the Share Option Scheme in accordance with (i) Rule 17.03(13) of the Listing Rules; (ii) the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules (the "Supplementary Guidance"); and (iii) the Share Option Scheme in the following manner with effect from 8 February 2013 as a result of the Share Consolidation:

	Before adjustment		After adjustment	
Date of grant	**Number of outstanding share options**	**Exercise price**	**Adjusted number of outstanding share options**	**Adjusted exercise price**
19 June 2006	45,778,600	HK$0.1016	9,155,720	HK$0.5080
5 July 2007	3,300,000	HK$0.7400	660,000	HK$3.7000
29 March 2012	84,500,000	HK$0.0644	16,900,000	HK$0.3220
29 March 2012	84,500,000	HK$0.0773	16,900,000	HK$0.3865
	218,078,600		43,615,720	

Effects of the Share Consolidation

As at the 31 December 2012, the authorised share capital of the Company was HK$200,000,000 divided into 10,000,000,000 shares of par value of HK$0.02 each, of which 5,969,304,672 Shares had been allotted and issued as fully paid or credited as fully paid. Upon the Share Consolidation becoming effective on 8 February 2013, the authorised share capital of the Company remained at HK$200,000,000 but was divided into 2,000,000,000 consolidated shares of par value of HK$0.1 each, of which 1,193,860,934 consolidated shares were in issue.

All the consolidated shares rank pari passu in all respects with each other in accordance with the articles of association of the Company.

Save for any fractional consolidated shares to which Shareholders may be entitled, the implementation of the Share Consolidation did not alter the underlying assets, business operations, management or financial position of the Company or result in any change in the rights of the Shareholders.

36 EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(b) 2013 MOU

With reference to the non-legally binding memorandum of understanding ("MOU") entered into on 4 December 2012 between Inner Mongolia Mingrunfeng Energy Co., Ltd (內蒙古銘潤峰能源有限公司) ("Mingrunfeng"), an indirectly wholly-owned subsidiary of the Company, and Xilinguolemeng Wulagai River Mineral Company Limited (錫林郭勒盟烏拉蓋河礦業有限公司), an independent third party (the "Purchaser"), in relation to the possible disposal of the exploration right of GCM at a consideration of RMB50,000,000 (equivalent to approximately HK$62,500,000) ("Possible Disposal"), on 28 March 2013, both parties have decided not to proceed with the Possible Disposal and renegotiated on the structure of the Possible Disposal in the form of an equity transfer. Accordingly, the parties to the MOU have mutually agreed to terminate the MOU with effect from 28 March 2013 upon which each of the parties to the MOU is released from the MOU.

On 28 March 2013, Bright Asset Investments Limited, First Choice Resources Limited, Jumplex Investments Limited and Wise House Limited, (collectively the "Vendors"), all of which being indirectly wholly-owned subsidiaries of the Company, entered into a non-legally binding memorandum of understanding ("2013 MOU") with the Purchaser in relation to the possible sale ("Possible Sale") by the Vendors of the entire equity interest in Mingrunfeng to the Purchaser at a consideration of RMB50,000,000 (equivalent to approximately HK$62,500,000). As at the date of this annual report, Mingrunfeng is the holder of the exploration right of GCM, which is the principal asset of Mingrunfeng.

The Possible Sale is subject to the signing of the formal legally binding equity transfer agreement and the terms of the Possible Sale are subject to further negotiation between the parties to the 2013 MOU.

37 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2013.

FIVE YEARS FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**192,803**	184,550	186,095	121,556	133,357
(Loss)/profit before income tax[3]	**(654,881)**	(39,032)	6,315	(201,644)	(397,205)
Income tax credit/(expense)	**149,945**	(1,155)	(1,344)	(1,988)	150,144
(Loss)/profit for the year	**(504,936)**	(40,187)	4,971	(203,632)	(247,061)
Attributable to:					
Equity holders of the Company	**(508,859)**	(40,539)	6,313	(203,314)	(247,430)
Non-controlling interests	**3,923**	352	(1,342)	(318)	369
	(504,936)	(40,187)	4,971	(203,632)	(247,061)

ASSETS AND LIABILITIES

	31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**376,933**	976,425	951,152	897,149	885,560
Total liabilities	**(175,921)**	(294,958)	(500,318)	(699,029)	(591,678)
Net assets	**201,012**	681,467	450,834	198,120	293,882
Equity attributable to equity holders of the Company	**195,005**	679,383	450,543	196,487	291,931
Non-controlling interests	**6,007**	2,084	291	1,633	1,951
Total equity	**201,012**	681,467	450,834	198,120	293,882

Notes:

(1) The consolidated income statement for the years ended 31 December 2012 and 2011 are set out on page 30 of this annual report.

(2) The consolidated statement of financial position at 31 December 2012 and 31 December 2011 are set out on pages 32 to 33 of this annual report.

(3) The loss before income tax of the Group for the year ended 31 December 2012 included loss before income tax from continuing operations and discontinued operation of approximately HK$629,434,000 and HK$25,447,000, respectively (2011: approximately HK$32,317,000 and HK$6,715,000, respectively).