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 **2013**

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## AUDITED FINANCIAL STATEMENTS

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Hui Kee Fung *(Chairman)*
Mr. Yu Won Kong, Dennis *(Chief Executive Officer)*
Mr. Cheung Kai Fung

## NON-EXECUTIVE DIRECTOR

Mr. Lam Kit Sun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. So Chun Pong, Ricky

## 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
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

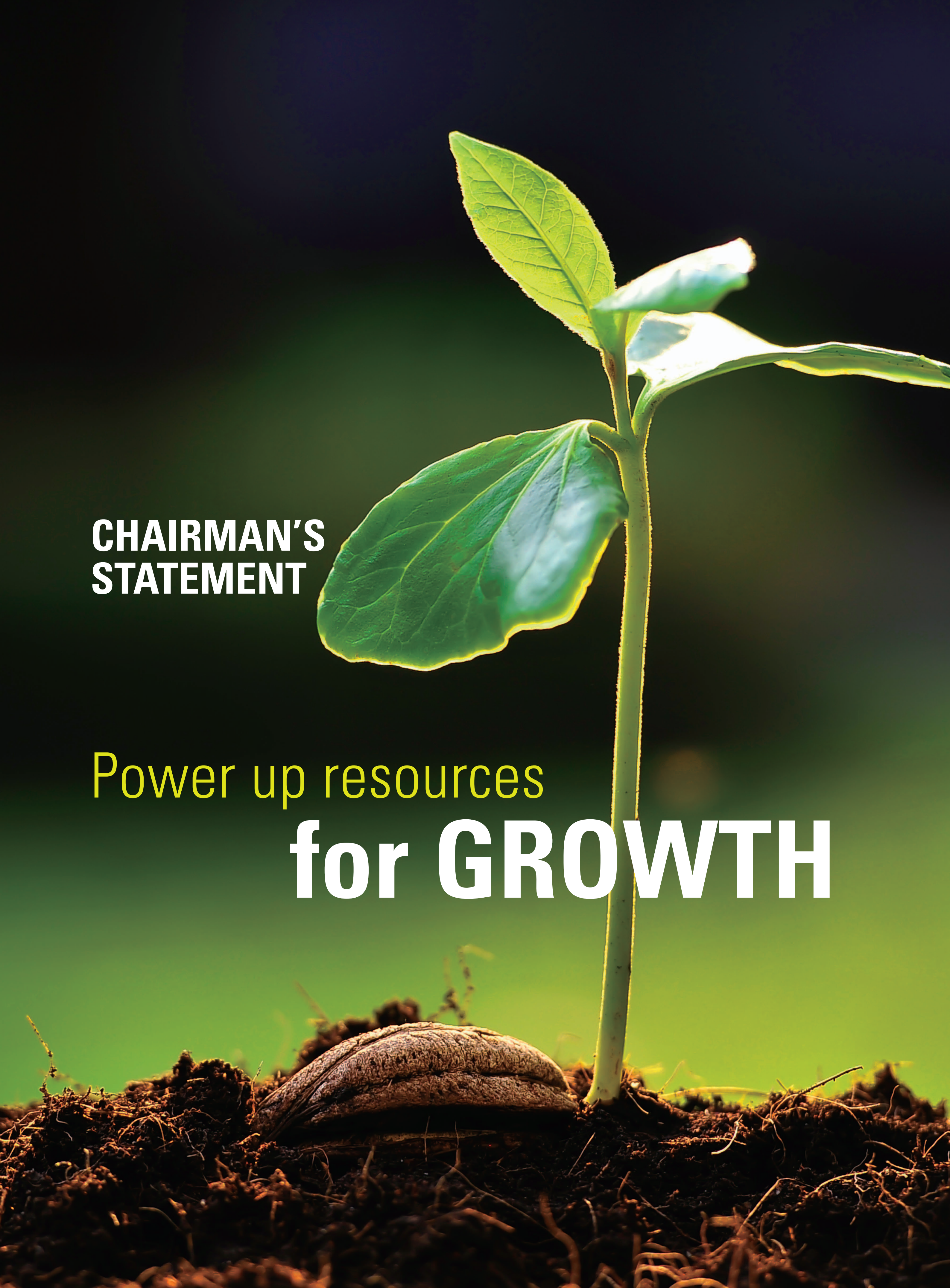
# FINANCIAL HIGHLIGHTS

## FINANCIAL PERFORMANCE

| for the year ended 31 December | 2013<br>HK$'000 | 2012<br>HK$'000 | Change |
|---|---|---|---|
| **TURNOVER** | **169,910** | 192,803 | (11.9%) |
| Gross profit | **49,273** | 59,518 | (17.2%) |
| Loss for the year | **(69,750)** | (504,936) | (86.2%) |
| Loss attributable to shareholders | **(71,826)** | (508,859) | (85.9%) |
| Basic loss per share (in HK cents) | **(6.02)** | (42.79) | (85.9%) |
| **TOTAL ASSETS** | **301,084** | 376,933 | (20.1%) |
| Shareholders' equity | **139,458** | 201,012 | (30.6%) |

# 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 2013 (the "Year").

## RESULTS AND DIVIDENDS

The past year was very challenging to the Group. The sluggish global economic growth, volatilities in international capital 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$169.9 million (2012: approximately HK$192.8 million), representing a decrease of approximately 11.9% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$71.8 million (2012: approximately HK$508.9 million). Basic loss per share for the Year was approximately 6.02 HK cents (2012: approximately 42.79 HK cents).

The Group's impairment loss of the exploration and evaluation assets for the Year was approximately HK$38.3 million (2012: approximately HK$603.9 million). The decrease in (i) the Group's loss attributable to shareholders; and (ii) the basic loss per share for the Year, of approximately HK$437.1 million and approximately 36.77 HK cents, respectively, was mainly attributable to the net impact of the significant decrease in impairment loss of the exploration and evaluation assets of the Group of approximately HK$565.6 million (2012: an increase in impairment loss of approximately HK$603.9 million) and its related significant decrease in the deferred tax credit of approximately HK$143.0 million (2012: an increase in the deferred tax credit of approximately HK$151.0 million) during the Year. Neither the impairment loss nor the deferred tax credit has any impact to the cash flow of the Group.

## BUSINESS REVIEW

### Toys and Gifts Business

Turnover from toys and gifts business for the Year was approximately HK$169.9 million (2012: approximately HK$192.8 million), representing a decrease of approximately 11.9% as compared to the previous year. The decrease in turnover from toys and gifts business was mainly due to certain confirmed sales orders of the Year being shipped to its customers in January 2014. The gross profit ratio of the toys and gifts business was approximately 29.0% for the Year (2012: approximately 30.9%).

# CHAIRMAN'S STATEMENT

### Coal Business

On 14 November 2012, Inner Mongolia Run Heng Mining Company Limited* (內蒙古潤恒礦業有限公司), formerly known as "Tongliao City Heng Yuan Mining Company Limited*" ("Run Heng"), an indirectly wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") to sell the assets of Huanghuashan Coal Mine ("HCM") to an independent third party (the "Purchaser"). The results of HCM were separately presented as discontinued operation for the year ended 31 December 2012. In accordance with the Agreement, the sale of the assets of HCM by Run Heng to the Purchaser had been completed during the Year.

The mining licence application process of Bayanhushuo Coal Field ("BCF") and Guerbanhada Coal Mine ("GCM") was much slower than expected. As at the date of this annual report, the Group is still waiting for the approval of the master planning (總體規劃) of both BCF and GCM 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 for the application of the mining licence of BCF and GCM.

### Future Plans for Material Investments

On 8 March 2014, Joint Hero Holdings Limited ("Joint Hero"), the Company's wholly-owned subsidiary incorporated in the British Virgin Islands (the "BVI") with limited liability, entered into a non-legally binding memorandum of understanding (the "MOU with Delight Grace") with Delight Grace Limited ("Delight Grace"), a company incorporated in the BVI with limited liability, the entire equity interest of which is owned by Buer Gude, a citizen of the PRC, in relation to the possible acquisition of certain equity interest in Multijoy Developments Limited (the "Target Company"), a company incorporated in the BVI with limited liability, the entire equity interest of which is owned by Buer Gude, to be carried out by Joint Hero as contemplated under the MOU with Delight Grace (the "Possible Acquisition").

The Board considers that the Possible Acquisition, if materialises, represents a good opportunity for the Group to diversify its business. The directors of the Company are of the view that the Possible Acquisition is in the interests of the Company and the Shareholders as a whole.

## 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 maximise 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, 31 March 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

During the financial year ended 31 December 2013 (the "Year"), the Group recorded a turnover of approximately HK$169.9 million (2012: approximately HK$192.8 million), representing a decrease of approximately 11.9% as compared to the previous year. The Group's loss attributable to shareholders for the Year was approximately HK$71.8 million (2012: approximately HK$508.9 million). Basic loss per share for the Year was approximately 6.02 HK cents (2012: approximately 42.79 HK cents).

The Group's impairment loss of the exploration and evaluation assets for the Year was approximately HK$38.3 million (2012: approximately HK$603.9 million). The decrease in (i) the Group's loss attributable to shareholders; and (ii) the basic loss per share for the Year, of approximately HK$437.1 million and approximately 36.77 HK cents, respectively, was mainly attributable to the net impact of the significant decrease in impairment loss of the exploration and evaluation assets of the Group of approximately HK$565.6 million (2012: an increase in impairment loss of approximately HK$603.9 million) and its related significant decrease in the deferred tax credit of approximately HK$143.0 million (2012: an increase in the deferred tax credit of approximately HK$151.0 million) during the Year. Neither the impairment loss nor the deferred tax credit has any impact to the cash flow of the Group.

## DIVIDEND

The Board does not recommend the payment of any dividend for the Year (2012: 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 exploration of natural resources. The Group has two reportable segments, namely, "Manufacturing and trading of toys and gifts items" and "Exploration of natural resources".

### Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business for the Year was approximately HK$169.9 million (2012: approximately HK$192.8 million), representing a decrease of approximately 11.9% as compared to the previous year. The decrease in turnover from toys and gifts business was mainly due to certain confirmed sales orders of the Year being shipped to its customers in January 2014.

The gross profit ratio of the toys and gifts business was approximately 29.0% for the Year (2012: approximately 30.9%).

### Exploration of natural resources

The Group owns the exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region (the "Inner Mongolia"), the PRC with total estimated coal resources of approximately 500.05 million tonnes under the JORC Code as follows:

| | **Inferred Resources** (Million tonnes) |
|---|---|
| Bayanhushuo Coal Field ("BCF") | 394.05 |
| Guerbanhada Coal Mine ("GCM") | 106.00 |
| Total | 500.05 |

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. on 31 January 2008, BCF has 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. Such resources report of BCF 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 that BCF has 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 current licence period of the exploration right of BCF is from 4 July 2012 to 4 July 2014. The Group will apply for the renewal of the licence period of the exploration right of BCF during the six months ending 30 June 2014 and the Directors are confident that such renewal will be approved.

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. on 30 March 2007, GCM has 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 was from 23 September 2011 to 22 September 2013. The Group successfully renewed such licence period during the Year and the current licence period of the exploration right of GCM is from 23 September 2013 to 22 September 2015.

On 18 April 2012, the Development and Reform Commission of Inner Mongolia (內蒙古自治區發展和改革委員會) has circulated a consultation paper (內發改能源函[2012]176號一關於徵求《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》)意見的函) (the "Consultation Paper") among various governmental departments of Inner Mongolia (the "Consultation"), with an objective to adjust and enhance the government policy in managing the coal resources in Inner Mongolia. The consultation paper has not become legally effective yet as at the date of this annual report. The Group will closely monitor the development of the Consultation from time to time and assess the impact to the Group, if any.

As disclosed in the 2012 annual consolidated results announcement of the Company dated 28 March 2013, the mining licence application process of BCF and GCM was much slower than expected. As at the date of this annual report, the Group is still waiting for the approval of the master planning (總體規劃) of both BCF and GCM 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 for the application of the mining licence of BCF and GCM.

On 28 March 2013, 28 June 2013 and 2 October 2013, Bright Asset Investments Limited, First Choice Resources Limited, Jumplex Investments Limited and Wise House Limited, (collectively the "Vendors"), all of which being companies incorporated in the British Virgin Islands ("BVI") with limited liability and indirectly wholly-owned subsidiaries of the Company, entered into a non-legally binding memorandum of understanding (the "MOU of GCM"), the supplemental MOU of GCM and the second supplemental MOU of GCM 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 ("Wulagai River"), and Inner Mongolia Mingrunfeng Energy Co., Ltd.* ("Mingrunfeng"), an indirectly wholly-owned subsidiary of the Company, in relation to the possible sale by the Vendors of the entire equity interest in Mingrunfeng to Wulagai River at a consideration of RMB50,000,000 (equivalent to approximately HK$64,000,000). Mingrunfeng is the holder of the exploration right of GCM, which is the principal asset of Mingrunfeng. The validity period of the MOU of GCM is before 31 March 2014.

As no formal sale and purchase agreement has been entered into between the Vendors and Wulagai River before 31 March 2014 nor there be an agreement reached in extending the date of entering into the formal sale and purchase agreement, the MOU of GCM has automatically lapsed immediately after 30 March 2014. Save for certain legally binding provisions including those relating to confidentiality obligations, each of the Vendors, Wulagai River and Mingrunfeng is released from the MOU of GCM.

For details, please refer to the Company's announcements dated 28 March 2013, 28 June 2013, 2 October 2013 and 31 March 2014.

## GEOGRAPHICAL INFORMATION

During the Year, revenue in the North America (includes the USA and Canada) amounted to approximately HK$152.9 million compared to approximately HK$172.5 million last year and represented approximately 90.0% (2012: approximately 89.5%) 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$9.2 million for the Year compared to approximately HK$11.6 million last year and represented approximately 5.4% (2012: approximately 6.0%) of the Group's total revenue.

## SELLING AND DISTRIBUTION COSTS

The amount of the selling and distribution expenses for the Year was approximately HK$24.7 million (2012: approximately HK$24.4 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 decreased by approximately 11.4% to approximately HK$53.6 million as compared to approximately HK$60.5 million in the previous year. The decrease in administrative expenses was mainly due to the decrease in the share-based payment expenses of approximately HK$4.4 million during the Year.

## PROVISION FOR IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

The impairment loss of the exploration and evaluation assets of BCF and GCM amounted to approximately HK$38.3 million for the Year (2012: approximately HK$603.9 million). The carrying values of the exploration and evaluation assets of BCF and GCM were tested for impairment as at 31 December 2013. The amount of the aggregate fair value of the exploration and evaluation assets of BCF and GCM, which was valued by an independent firm of professional valuer, or which the estimates, assumptions and judgements relating to the impairment tests are in note 15 to the consolidated financial statements was lower than its carrying value, and accordingly, an impairment loss of approximately HK$38.3 million has been charged to the consolidated income statement for the Year (2012: approximately HK$603.9 million). The impairment loss has no impact to the cash flow of the Group.

The Company believes that the estimates and assumptions applied in the assessment of fair value which was valued by an independent firm of professional valuer are reasonable. However, such estimates and assumptions are subject to significant uncertainties and judgements. 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 and assumptions can be changed significantly and further impairment charges/reversal of impairment charges may be required in the future period.

## FINANCE COSTS

Finance costs for the Year increased by approximately 21.2% to approximately HK$6.3 million as compared to approximately HK$5.2 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$1.2 million.

## INCOME TAX CREDIT

The Group recorded an income tax credit of approximately HK$3.9 million during the Year (2012: approximately HK$149.9 million). The significant decrease in income tax credit was mainly due to the deferred tax credit of HK$151.0 million recorded in the previous year as a result of the impairment loss of approximately HK$603.9 million in relation to the exploration and evaluation assets of BCF and GCM recorded in the previous year.

## DISCONTINUED OPERATION

On 14 November 2012, Inner Mongolia Run Heng Mining Company Limited* (內蒙古潤恒礦業有限公司), formerly known as "Tongliao City Heng Yuan Mining Company Limited*" ("Run Heng"), an indirectly wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") to sell the assets of Huanghuashan Coal Mine ("HCM") to an independent third party (the "Purchaser"). The results of HCM were separately presented as discontinued operation for the year ended 31 December 2012. Pursuant to the Agreement, (i) the Purchaser took all the financial and operational control of HCM since 1 January 2013; and (ii) the legal title, the mining licence and safety production licence of HCM had been transferred to the Purchaser during the Year. In accordance with the Agreement, the sale of the assets of HCM by Run Heng to the Purchaser had been completed 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$18.7 million at 31 December 2013 (2012: approximately HK$23.4 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2013, the Group's borrowings amounted to approximately HK$76.2 million (2012: approximately HK$56.7 million).

The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi, of which approximately 77.6% (2012: approximately 74.7%) bore interest at fixed lending rates.

The gearing ratio of the Group calculated as the Group's borrowings less bank and cash balances over its total equity was approximately 41.2% at 31 December 2013 (2012: approximately 16.6%).

Net current liabilities of the Group at 31 December 2013 was approximately HK$60.9 million (2012: approximately HK$30.9 million) and the current ratio of the Group calculated as the Group's current assets over its current liabilities was approximately 0.53 (2012: approximately 0.78).

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 2013, certain property, plant and equipment, prepaid land lease payments and investment properties held by the Group with aggregate carrying value of approximately HK$71.0 million (2012: approximately HK$73.9 million), were pledged to secure general banking facilities granted to the Group.

The Group had no capital commitments as at 31 December 2013 (2012: Nil).

The Group had no contingent liabilities as at 31 December 2013 (2012: Nil).

## LAPSE OF MOU WITH PRECIOUS STARS

On 10 June 2013, Joint Hero Holdings Limited ("Joint Hero"), a company incorporated in the BVI with limited liability, the entire equity interest of which is owned by the Company, entered into a non-legally binding memorandum of understanding (the "MOU with Precious Stars") with Precious Stars Developments Limited ("Precious Stars"), a company incorporated in the BVI with limited liability in relation to the possible acquisition of Million Union Holdings Limited ("Million Union"), a company incorporated in the BVI with limited liability, the entire equity interest of which is owned by Precious Stars, to be carried out by Joint Hero as contemplated under the MOU with Precious Stars.

As no formal sale and purchase agreement was entered into between Joint Hero and Precious Stars on or before 9 December 2013 nor there be an agreement reached in extending the date of entering into the formal sale and purchase agreement, the MOU with Precious Stars was automatically lapsed immediately after 9 December 2013. Save for certain legally binding provisions including those relating to confidentiality obligations, each of Joint Hero and Precious Stars was released from the MOU with Precious Stars.

For details, please refer to the Company's announcements dated 10 June 2013 and 10 December 2013, respectively.

## BUSINESS PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

On 8 March 2014, Joint Hero entered into a non-legally binding memorandum of understanding (the "MOU with Delight Grace") with Delight Grace Limited ("Delight Grace"), a company incorporated in BVI with limited liability, the entire equity interest of which is owned by Buer Gude, a citizen of the PRC, in relation to the possible acquisition of certain equity interest in Multijoy Developments Limited (the "Target Company"), a company incorporated in BVI with limited liability, the entire equity interest of which is owned by Buer Gude, and part of the shareholder's loan to be owed by the Target Company to the Delight Grace, to be carried out by Joint Hero as contemplated under the MOU with Delight Grace (the "Possible Acquisition").

As advised by Delight Grace and upon completion of the reorganisation to be carried out by Delight Grace and the Target Company, Delight Grace will hold the entire equity interest in the Target Company and the Target Company will hold the entire equity interest in a PRC Company (the "PRC Company").

The PRC Company is principally engaged in investment holding and is the owner of a land situated at Jiangxi province of the PRC with a total area of approximately 2,265 mu.

The consideration for the Possible Acquisition shall be subject to further negotiation between Joint Hero and Delight Grace and shall be settled by cash or such other methods agreed between Joint Hero and Delight Grace.

Joint Hero and Delight Grace will proceed with further negotiation for the entering into of the formal sale and purchase agreement (the "Formal Agreement") in relation to the Possible Acquisition as soon as possible and in any event within 90 days from the date of the MOU with Delight Grace (or such other date to be agreed by the parties thereto).

For details, please refer to the Company's announcement dated 8 March 2014.

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

At 31 December 2013, the capital structure of the Company is constituted of 1,193,860,934 ordinary shares of HK$0.1 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 18 March 2014, the Company entered into a conditional placing and subscription agreement with Legend Win Profits Limited, Grand Field Capital Investments Limited (collectively, the "Subscribers") and a placing agent for (i) the placing of up to an aggregate of 135,000,000 ordinary shares of HK$0.10 each of the Company at the placing price of HK$0.175 per share at the best effort basis; and (ii) the subscription of up to 135,000,000 new ordinary shares of HK$0.10 each of the Company to the Subscribers at the subscription price of HK$0.175 per share (together, the ("Placing and Subscription")). The net proceeds of approximately HK$23.1 million would be used as the general working capital and future investment opportunity purposes of the Group. The Placing and Subscription was completed on 31 March 2014 and the Company's issued ordinary shares have been increased from 1,193,860,934 ordinary shares to 1,328,860,934 ordinary shares. For details, please refer to the Company's announcement dated 18 March 2014.

At 31 December 2013, 41,796,120 share options remained outstanding (2012: 43,615,720 share options).

## EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 December 2013, the Group had a total of 499 employees (2012: 491 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Hui Kee Fung**, aged 53, 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 a China Overseas Friendship Association Director, a Standing Committee Member of the Tenth 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 Permanent 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 64, 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. Cheung Kai Fung**, aged 39, has been appointed as the chief financial officer and company secretary of the Company since 15 March 2010 and has been appointed as executive director of the Company since 1 August 2013. He holds a bachelor in business administration degree in information and systems management from The Hong Kong University of Science and Technology and graduated from the MBA Program in Finance jointly offered by The Chinese University of Hong Kong in collaboration with the Tsinghua University. He 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 15 years of finance, investor relations and audit experience.

### Non-Executive Director

**Mr. Lam Kit Sun**, aged 36, was appointed as an executive Director from 27 October 2009 and has been re-designated as a non-executive Director since 1 August 2013. He graduated from The Hong Kong University of Science and Technology with bachelor's degree in Business Administration in Accounting. He has over 10 years of experience in the field of financial reporting, financial management and audit experience in China and Hong Kong. Mr. Lam has worked in an international accountancy firm in Hong Kong for over 4 years and was the company secretary and qualified accountant of China Leason Investment Group Co. Limited, a company listed on the GEM. Mr. Lam is a fellow and practicing member of the Hong Kong Institute of Certificate Public Accountants, a fellow of the Association of Chartered Certified Accountants, an associate of The Hong Kong Institute of Chartered Secretaries and a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Lam was the non-executive director of Ruifeng Petroleum Chemical Holdings Limited, a company listed on the GEM, from 11 August 2008 to 6 July 2011. He is an executive director, company secretary and chief financial officer of Universe International Holdings Limited, a company listed on the main board of the Stock Exchange, the chief financial officer and company secretary of Finsoft Corporation, a company listed on the GEM, and an independent non-executive director of DX.com Holdings Limited and M Dream Inworld Limited, companies whose securities are listed on the GEM.

### Independent Non-Executive Directors

**Mr. Lam Siu Lun, Simon**, aged 64, 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, Lifestyle Properties Limited, and Le Saunda Holdings Ltd, companies whose securities are listed on the Stock Exchange.

**Mr. Zhang Xianmin**, aged 60, 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. So Chun Pong, Ricky**, aged 40, has been appointed as independent non-executive director of the Company since 31 May 2013. He graduated from the University of Toronto in 2002 with a bachelor degree in Landscape Architecture. He has over 11 years of experience in the field of landscape architecture and worked in various leading landscape architecture companies in Hong Kong and overseas. Mr. So is specialized in residential and recreational developments in his practice. He has an extensive experience in various aspects in the landscape architects industry including master-planning and site construction.

## SENIOR MANAGEMENT

**Mr. Yang Runzhi**, aged 59, 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 52, 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 25 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 45, is the operation manager of the Group's toys and gifts business. Madam Hui has over 20 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 2013.

## 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 2013 is set out in note 6 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2013 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 29 to 33 of this annual report. The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2013.

## 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 2013 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 27 and 29 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company had distributable reserves of approximately HK$19.9 million (2012: HK$81.4 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 (2012: HK$125.2 million) and approximately HK$984.9 million (2012: HK$984.9 million), respectively, at 31 December 2013 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 did not make any charitable contributions (2012: approximately HK$4,000).

## 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$1,748,000 (2012: approximately HK$1,521,000) 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 (2012: Nil) was available at 31 December 2013 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 2013 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 66.3% of the total sales for the year and sales to the largest customer included therein accounted for approximately 35.2%. Purchases from the Group's five largest suppliers accounted for approximately 34.4% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 13.0%.

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. Cheung Kai Fung (appointed on 1 August 2013)

### Non-executive director:

Mr. Lam Kit Sun (re-designated from executive director on 1 August 2013)

### Independent non-executive directors:

Mr. Lam Siu Lun, Simon
Mr. Zhang Xianmin
Mr. Jin Peihuang (retired on 31 May 2013)
Mr. So Chun Pong (appointed on 31 May 2013)

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 articles 87(1) and 87(2) of the Company's articles of association (the "Articles"), at each annual general meeting of the Company, one-third of the directors of the Company for the time being (or, if such number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director of the Company shall be subject to retirement by rotation at least once every three years. A retiring director of the Company shall be eligible for re-election.

In accordance with Articles 87(1) and 87(2), Mr. Lam Kit Sun and Mr. Lam Siu Lun, Simon shall retire from office by rotation at the forthcoming annual general meeting. Being eligible, Mr. Lam Kit Sun and Mr. Lam Siu Lun, Simon will offer himself for re-election as a non-executive director of the Company/an independent non-executive director of the Company (as the case may be).

In accordance with Article 86(3), Mr. Cheung Kai Fung shall retire from office at the forthcoming annual general meeting. Being eligible, Mr. Cheung Kai Fung will offer himself for re-election as an executive director of the Company.

## 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 renewed his service contract with the Company and continued to serve as an executive director and the chairman of the Company for a term of one year from 1 July 2013 to 30 June 2014, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Yu Won Kong, Dennis renewed his service contract with the Company and continued to serve as an executive director and the chief executive officer of the Company for a term of two years from 22 October 2013 to 21 October 2015, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Cheung Kai Fung entered into a service contract with the Company to serve as an executive director of the Company and continued to serve as the chief financial officer and the company secretary for an initial term of two years from 1 August 2013 to 31 July 2015, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Lam Kit Sun entered into his service contract with the Company to serve as an executive director of the Company for a term of two years from 27 October 2011 to 26 October 2013, which may be terminated by either party thereto by giving to the other three months' prior notice in writing. As a result of his re-designation from an executive director of the Company to a non-executive director of the Company (as set out in more details under the paragraph headed "Term of Non-executive Directors" below) with effect from 1 August 2013, his said service contract was terminated with effect from 1 August 2013.

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

## TERM OF NON-EXECUTIVE DIRECTORS

Mr. Lam Kit Sun re-designated from an executive director of the Company to a non-executive director of the Company with effect from 1 August 2013 and entered into an appointment letter with the Company for an initial term of one year from 1 August 2013 to 31 July 2014, which may be terminated by either party thereto by giving to the other one month's prior notice in writing.

Each of the independent non-executive directors is appointed for a fixed term of 2 years as follows:

| Name of directors | Term period |
|---|---|
| Mr. Lam Siu Lun, Simon | 22 October 2013 to 21 October 2015 |
| Mr. Zhang Xianmin | 22 October 2013 to 21 October 2015 |
| Mr. So Chun Pong, Ricky | 31 May 2013 to 30 May 2015 |

## DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in notes 25(a)(ii) and 33(iv) to the consolidated financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2013, 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:

### Long position in the shares of the Company

| 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)* | 155,900,000 | 153,500,000 | – | 2,400,000 | 13.06% |
| Yu Won Kong, Dennis | 117,707,364 | – | 2,900,000 | 114,807,364 | 9.86% |
| Lam Kit Sun | 2,400,000 | – | – | 2,400,000 | 0.20% |
| Cheung Kai Fung | 1,800,000 | – | – | 1,800,000 | 0.15% |
| Lam Siu Lun, Simon | 1,800,000 | – | – | 1,800,000 | 0.15% |
| Zhang Xianmin | 1,800,000 | – | – | 1,800,000 | 0.15% |

*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 taken into account the effect of the share consolidation which was effective on 8 February 2013. Details of the share consolidation are set out in note 27(a) to the consolidated financial statements.*

Save as disclosed above and under the heading "Substantial Shareholders" below, 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 2013.

Save as disclosed above, as at 31 December 2013, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SHARE OPTION SCHEME

The Company had adopted a share option scheme (the "Share Option Scheme") on 28 May 2002, which expired on 27 May 2012. Notwithstanding the expiration of the Share Option Scheme, its provisions would remain in force in all respects with respect to the outstanding share options granted under the Share Option Scheme.

Due to the expiry of the Share Option Scheme, the directors of the Company put forward to the shareholders of the Company a proposal to adopt a new share option scheme (the "New Share Option Scheme"). The New Share Option Scheme was approved by the shareholders at the annual general meeting held on 31 May 2013. The Company adopted the New Share Option Scheme which became effective on 31 May 2013.

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not, in aggregate, 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 New Share Option Scheme shall not, in aggregate, exceed 10% of the total number of shares in issue as at 31 May 2013. For the avoidance of doubt, the outstanding share options granted under the Share Option Scheme would not be counted for the purpose of calculating such 10% limit. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the New Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the New 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 granted under the Share Option Scheme during the year:

| Grantee *(Note)* | Date of grant | Number of share options: Outstanding at 1 January 2013 | Forfeited during the year | Outstanding at 31 December 2013 | Exercise price HK$ | Exercise Period |
|---|---|---|---|---|---|---|
| (Executive directors) | | | | | | |
| Yu Won Kong, Dennis | 29 March 2012 | 5,900,000 | – | 5,900,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 5,900,000 | – | 5,900,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| Hui Kee Fung | 29 March 2012 | 1,200,000 | – | 1,200,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 1,200,000 | – | 1,200,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| Cheung Kai Fung (appointed on 1 August 2013) | 29 March 2012 | 900,000 | – | 900,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 900,000 | – | 900,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| (Non-executive Director) | | | | | | |
| Lam Kit Sun (re-designated on 1 August 2013) | 29 March 2012 | 1,200,000 | – | 1,200,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 1,200,000 | – | 1,200,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| (Independent non-executive directors) | | | | | | |
| Lam Siu Lun, Simon | 29 March 2012 | 900,000 | – | 900,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 900,000 | – | 900,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| Zhang Xianmin | 29 March 2012 | 900,000 | – | 900,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 900,000 | – | 900,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| Jin Peihuang (retired on 31 May 2013) | 29 March 2012 | 900,000 | (900,000) | – | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 900,000 | (900,000) | – | 0.3865 | 29 March 2012 to 28 March 2015 |
| Employees | 19 June 2006 | 9,155,720 | (19,600) | 9,136,120 | 0.5080 | 1 January 2007 to 18 June 2016 |
| | 5 July 2007 | 660,000 | – | 660,000 | 3.7000 | 1 July 2008 to 18 June 2016 |
| | 29 March 2012 | 5,000,000 | – | 5,000,000 | 0.3220 | 29 March 2012 to 28 March 2015 |
| | 29 March 2012 | 5,000,000 | – | 5,000,000 | 0.3865 | 29 March 2012 to 28 March 2015 |
| Total | | 43,615,720 | (1,819,600) | 41,796,120 | | |

*Notes:*

1. *The above information of the outstanding share options has taken into account the effect of the share consolidation which was effective on 8 February 2013. Details of the share consolidation are set out in note 27(a) to the consolidated financial statements.*

2. *No option was granted under the New Share Option Scheme during the year.*

3. *No option was granted, exercised and expired under the Share Option Scheme during the year.*

## SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31 December 2013, 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:

### Long position in the shares of the Company

| 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)* | 153,500,000<br>12.86% | 153,500,000 | – |
| Grand Field Capital Investments Limited | 122,248,000<br>10.24% | 122,248,000 | – |
| Ho Siu Lan, Sandy *(Note 2)* | 117,707,364<br>9.86% | 2,900,000 | 114,807,364 |

*Notes:*

1. *Details of Legend Win Profits Limited are disclosed in the paragraph headed "Directors' Interests in Shares" of this annual report.*

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

3. *The above information of the substantial shareholders has taken into account the effect of the share consolidation which was effective on 8 February 2013. Details of the share consolidation are set out in note 27(a) to the consolidated financial statements.*

## 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 approximately 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 (2012: HK$1,663,000), and were within the relevant annual cap approved by the directors of the Company.

The Service Agreement constituted a continuing connected transaction of the Company. The annual caps did not fall under the exemption in Chapter 14A of the Listing Rules and were all subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

For details, please refer to the Company's announcement 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 agreement 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 report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 23 to 26 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 34 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, 31 March 2014

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2013, the Company has complied with all the applicable code provisions set out in the Corporate Governance 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 2013.

## BOARD OF DIRECTORS

As at 31 December 2013, the Board currently comprises three executive directors, one non-executive director 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. So Chun Pong, Ricky ("Mr. So") 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 2013, while Mr. So was appointed for a term of two years commencing from 31 May 2013.

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

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Fourteen Board meetings were held in 2013. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings, the Remuneration Committee meetings and the general meetings of the Company during 2013 is set out below:

| | Attendance/number of meetings | | | | |
|---|---|---|---|---|---|
| **Director** | **Board** | **Audit committee** | **Nomination committee** | **Remuneration committee** | **General meeting** |
| *Executive director* | | | | | |
| Mr. Hui Kee Fung *(Chairman)* | 14/14 | N/A | 4/4 | 4/4 | 2/2 |
| Mr. Yu Won Kong, Dennis *(Chief Executive Officer)* | 14/14 | N/A | N/A | N/A | 2/2 |
| Mr. Cheung Kai Fung *(Note 1)* | 6/6 | N/A | N/A | N/A | 2/2 |
| *Non-executive director* | | | | | |
| Mr. Lam Kit Sun *(Note 2)* | 14/14 | N/A | N/A | N/A | 2/2 |
| *Independent non-executive director* | | | | | |
| Mr. Lam Siu Lun, Simon | 14/14 | 3/3 | 4/4 | 4/4 | 2/2 |
| Mr. Zhang Xianmin | 13/14 | 2/3 | 4/4 | 4/4 | 0/2 |
| Mr. Jin Peihuang *(Note 3)* | 5/5 | 2/2 | 1/1 | 1/1 | 0/2 |
| Mr. So Chun Pong, Ricky *(Note 4)* | 9/9 | 1/1 | 3/3 | 3/3 | N/A |

1. *Mr. Cheung Kai Fung was appointed as the executive director of the Company with effect on 1 August 2013.*

2. *Mr. Lam Kit Sun was re-designated from an executive director to a non-executive director of the Company on 1 August 2013.*

3. *Mr. Jin Peihuang retired and did not offer himself for re-election as an independent non-executive director of the Company at the annual general meeting of the Company on 31 May 2013.*

4. *Mr. So Chun Pong, Ricky was appointed by the shareholders of the Company as an independent non-executive director of the Company at the annual general meeting of the Company in replacement of Mr. Jin Peihuang.*

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

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

## REMUNERATION COMMITTEE

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

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. Four meetings were held by the Remuneration Committee in 2013. Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2013 include:

Mr. Lam Siu Lun, Simon — *Chairman*
Mr. Zhang Xianmin
Mr. So Chun Pong, Ricky
Mr. Hui Kee Fung

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

## NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request. Four meeting was held by the Nomination committee in 2013.

The Board adopted a Board Diversity Policy in August 2013 setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of, amongst other factors, skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be made on a merit basis, and candidates will be considered against a range of selection criteria, having regard for the benefits of diversity on the Board.

Three out of Four of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2013 include:

Mr. Zhang Xianmin — *Chairman*
Mr. Lam Siu Lun, Simon
Mr. So Chun Pong, Ricky
Mr. Hui Kee Fung

## AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2013. All committee members are independent non-executive directors. Its members as at 31 December 2013 include:

Mr. Lam Siu Lun, Simon — *Chairman*
Mr. Zhang Xianmin
Mr. So Chun Pong, Ricky

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

## AUDITOR'S REMUNERATION

During the year, the Group has incurred auditor's remuneration of HK$2,000,000 (2012: HK$2,000,000) all of which was paid/payable to the Company's existing auditor, PricewaterhouseCoopers. In addition, professional fee of approximately HK$120,000 (2012: HK$116,000) 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. Mr. Cheung was appointed as the executive director of the Company on 1 August 2013. 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 13 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 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 auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 27 to 28 of this annual report.

## GOING CONCERN

At 31 December 2013, the Group's current liabilities exceeded its current assets by approximately HK$60,897,000 and the Group recorded a loss of approximately HK$69,750,000 and a net operating cash outflow of approximately HK$22,494,000 during the year ended 31 December 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern 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 measures as follows:

(1) At 18 March 2014, the Group raised net proceeds of HK$23,100,000 through placing and subscription of the Company's share (note 34(ii) to the consolidated financial statements);

(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;

(4) The Group is pursuing to dispose of its exploration and evaluation assets for cash; and

(5) 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 2013. 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. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. 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

pwc 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 29 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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*

# INDEPENDENT AUDITOR'S REPORT

## 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 2013, 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$69,750,000 and had a net operating cash outflow of approximately HK$22,494,000 during the year ended 31 December 2013 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$60,897,000. 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 cash flows from its operating and investing activities. 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, 31 March 2014

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Turnover** | *6* | **169,910** | 192,803 |
| Cost of sales | | **(120,637)** | (133,285) |
| **Gross profit** | | **49,273** | 59,518 |
| Other income | *6* | **1,916** | 1,881 |
| Selling and distribution costs | | **(24,672)** | (24,404) |
| Administrative expenses | | **(53,567)** | (60,467) |
| Provision for impairment of exploration and evaluation assets | *15* | **(38,252)** | (603,888) |
| Other (losses)/gains, net | *9* | **(2,031)** | 3,080 |
| **Operating loss** | | **(67,333)** | (624,280) |
| Finance costs | *7* | **(6,338)** | (5,154) |
| **Loss before income tax** | | **(73,671)** | (629,434) |
| Income tax credit | *8* | **3,921** | 149,945 |
| **Loss for the year from continuing operations** | *9* | **(69,750)** | (479,489) |
| **Discontinued operation** | | | |
| Loss for the year from discontinued operation | *22* | **–** | (25,447) |
| **Loss for the year** | | **(69,750)** | (504,936) |
| **(Loss)/profit attributable to:** | | | |
| Equity holders of the Company | | **(71,826)** | (508,859) |
| Non-controlling interests | | **2,076** | 3,923 |
| | | **(69,750)** | (504,936) |
| **Loss attributable to equity holders of the Company arises from:** | | | |
| Continuing operations | | **(71,826)** | (483,412) |
| Discontinued operation | | **–** | (25,447) |
| | | **(71,826)** | (508,859) |
| | | **HK cents** | HK cents |
| **Loss per share from continuing and discontinued operations attributable to the equity holders of the Company** | *10* | | |
| **Basic and diluted loss per share** | | | |
| From continuing operations | | **(6.02)** | (40.65) |
| From discontinued operation | | **–** | (2.14) |
| From loss for the year | | **(6.02)** | (42.79) |

The notes on pages 38 to 95 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| **Loss for the year** | **(69,750)** | (504,936) |
| **Other comprehensive income:** | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Surplus on revaluation of properties | **2,609** | 12,631 |
| Deferred income tax arising on revaluation of properties | **411** | (1,903) |
| Items that may be reclassified to profit or loss: | | |
| Exchange difference arising from translation of foreign operations | **5,176** | (2,601) |
| **Other comprehensive income for the year, net of tax** | **8,196** | 8,127 |
| **Total comprehensive loss for the year** | **(61,554)** | (496,809) |
| **Total comprehensive (loss)/income attributable to:** | | |
| — Equity holders of the Company | **(63,630)** | (500,732) |
| — Non-controlling interests | **2,076** | 3,923 |
| | **(61,554)** | (496,809) |
| **Total comprehensive loss attributable to equity holders of the Company arises from:** | | |
| Continuing operations | **(63,630)** | (475,315) |
| Discontinued operation | **–** | (25,417) |
| | **(63,630)** | (500,732) |

The notes on pages 38 to 95 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *12* | **67,283** | 71,994 |
| Prepaid land lease payments | *13* | **4,659** | 4,635 |
| Investment properties | *14* | **10,100** | 9,850 |
| Exploration and evaluation assets | *15* | **148,312** | 180,904 |
| Mining right | *16* | **–** | – |
| Other intangible asset | *17* | **1,070** | 1,082 |
| Deferred income tax assets | *26* | **353** | 411 |
| | | **231,777** | 268,876 |
| **Current assets** | | | |
| Inventories | *19* | **22,885** | 18,831 |
| Trade receivables | *20* | **18,510** | 17,049 |
| Prepayments, deposits and other receivables | | **8,870** | 10,407 |
| Tax recoverable | | **332** | 118 |
| Bank and cash balances | *21* | **18,710** | 23,418 |
| | | **69,307** | 69,823 |
| Assets classified as held for sale | *22* | **–** | 38,234 |
| | | **69,307** | 108,057 |
| **Total assets** | | **301,084** | 376,933 |
| **Current liabilities** | | | |
| Trade payables | *23* | **14,337** | 9,978 |
| Accruals and other payables | *23* | **39,344** | 71,889 |
| Tax payable | | **366** | 379 |
| Borrowings | *25* | **76,157** | 56,705 |
| | | **130,204** | 138,951 |
| **Net current liabilities** | | **(60,897)** | (30,894) |
| **Total assets less current liabilities** | | **170,880** | 237,982 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | Note | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | *26* | **31,422** | 36,970 |
| | | **31,422** | 36,970 |
| **Net assets** | | **139,458** | 201,012 |
| **Equity** | | | |
| Share capital | *27* | **119,386** | 119,386 |
| Reserves | *28* | **11,989** | 75,619 |
| **Equity attributable to equity holders of the Company** | | **131,375** | 195,005 |
| Non-controlling interests | | **8,083** | 6,007 |
| **Total equity** | | **139,458** | 201,012 |

The notes on pages 38 to 95 are an integral part of these consolidated financial statements.

The financial statements on pages 29 to 95 were approved by the board of directors of the Company on 31 March 2014 and were signed on its behalf.

**Hui Kee Fung**
*Director*

**Yu Won Kong, Dennis**
*Director*

# STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | *18* | **195,850** | 285,746 |
| | | **195,850** | 285,746 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | **–** | 491 |
| Bank and cash balances | *21* | **28** | 32 |
| | | **28** | 523 |
| **Total assets** | | **195,878** | 286,269 |
| **Current liabilities** | | | |
| Accruals and other payables | *23* | **25,204** | 18,972 |
| Due to subsidiaries | *24* | **13,124** | 60,993 |
| Borrowings | *25* | **18,300** | 5,500 |
| | | **56,628** | 85,465 |
| **Net current liabilities** | | **(56,600)** | (84,942) |
| **Net assets** | | **139,250** | 200,804 |
| **Equity** | | | |
| Share capital | *27* | **119,386** | 119,386 |
| Reserves | *28* | **19,864** | 81,418 |
| **Total equity** | | **139,250** | 200,804 |

The notes on pages 38 to 95 are an integral part of these consolidated financial statements.

The financial statements on pages 29 to 95 were approved by the board of directors of the Company on 31 March 2014 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 2013

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital<br>HK$'000<br>*(note 27)* | Share premium<br>HK$'000<br>*(note (a))* | Statutory surplus<br>HK$'000<br>*(note (b))* | Contributed surplus<br>HK$'000<br>*(note (c))* | Foreign currency translation reserve<br>HK$'000<br>*(note (d))* | Share-based payment reserve<br>HK$'000<br>*(note (e))* | Property revaluation reserve<br>HK$'000<br>*(note (f))* | Accumulated losses<br>HK$'000 | Total<br>HK$'000 | Non-controlling interest<br>HK$'000 | Total equity<br>HK$'000 |
| 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 27(b))* | 4,000 | 8,000 | – | – | – | – | – | – | 12,000 | – | 12,000 |
| Release on expiry/forfeiture of share options *(note 29)* | – | – | – | – | – | (9,086) | – | 9,086 | – | – | – |
| Recognition of share-based payment *(note 29)* | – | – | – | – | – | 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 |
| At 1 January 2013 | **119,386** | **984,947** | **3,320** | **303** | **99,135** | **7,570** | **35,982** | **(1,055,638)** | **195,005** | **6,007** | **201,012** |
| **Total comprehensive (loss)/ income for the year** | **–** | **–** | **–** | **–** | **5,176** | **–** | **3,020** | **(71,826)** | **(63,630)** | **2,076** | **(61,554)** |
| **Transaction with equity holders** | | | | | | | | | | | |
| Release on forfeiture of share options *(note 29)* | **–** | **–** | **–** | **–** | **–** | **(177)** | **–** | **177** | **–** | **–** | **–** |
| Transfer to reserve | **–** | **–** | **1,051** | **–** | **–** | **–** | **–** | **(1,051)** | **–** | **–** | **–** |
| **Total transactions with equity holders** | **–** | **–** | **1,051** | **–** | **–** | **(177)** | **–** | **(874)** | **–** | **–** | **–** |
| At 31 December 2013 | **119,386** | **984,947** | **4,371** | **303** | **104,311** | **7,393** | **39,002** | **(1,128,338)** | **131,375** | **8,083** | **139,458** |

The notes on pages 38 to 95 are an integral part of these consolidated financial statements.

*Notes:*

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

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

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities including discontinued operation** | | | |
| Loss before income tax | | **(73,671)** | (646,131) |
| Adjustments for: | | | |
| Amortisation of other intangible assets | *17* | **12** | 11 |
| Amortisation of prepaid land lease payments | *13* | **119** | 116 |
| Depreciation of property, plant and equipment | *12* | **8,779** | 8,157 |
| Provision for impairment of trade receivables | | **11** | – |
| Provision for impairment of other receivables | | **403** | – |
| Provision for impairment of exploration and evaluation assets | *15* | **38,252** | 603,888 |
| Fair value loss/(gain) on investment properties | *14* | **36** | (491) |
| Interest expenses | | **6,338** | 12,233 |
| Interest income | | **(22)** | (16) |
| Write-off and loss on disposals of property, plant and equipment | | **1,485** | 71 |
| Provision/(write-back of provision) for inventory obsolescence | | **393** | (338) |
| Share-based payment expenses | | **–** | 4,354 |
| Operating loss before working capital changes | | **(17,865)** | (18,146) |
| Changes in inventories | | **(4,112)** | 6,927 |
| Changes in trade receivables | | **(1,453)** | 1,043 |
| Changes in prepayments, deposits and other receivables | | **1,218** | 4,499 |
| Changes in trade payables | | **4,092** | (10,667) |
| Changes in trust receipt loans | | **(731)** | (2,801) |
| Changes in accruals and other payables | | **5,005** | 10,053 |
| Cash used in operations | | **(13,846)** | (9,092) |
| Interest paid | | **(6,338)** | (12,233) |
| Income taxes paid, net | | **(2,310)** | (791) |
| Net cash used in operating activities | | **(22,494)** | (22,116) |

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Interest received | | **22** | 16 |
| Purchases of property, plant and equipment | *12* | **(2,046)** | (11,832) |
| Deposit received for the disposal of assets classified as held for sale | *22* | **–** | 38,234 |
| Net cash (used in)/generated from investing activities | | **(2,024)** | 26,418 |
| **Cash flows from financing activities** | | | |
| Bank and other loans raised | | **97,177** | 105,973 |
| Repayment of bank and other loans | | **(78,397)** | (109,776) |
| Proceeds from exercise of share options | | **–** | – |
| Proceeds from share placement | *27* | **–** | 12,000 |
| Costs for issuing shares on placement | | **–** | (368) |
| Net cash generated from financing activities | | **18,780** | 7,829 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5,738)** | 12,131 |
| **Cash and cash equivalents at 1 January** | | **23,418** | 13,002 |
| Effect of foreign exchange rate changes | | **923** | 368 |
| **Cash and cash equivalents at 31 December** | | **18,603** | 25,501 |
| **Analysis of the balances of cash and cash equivalents at 31 December** | | | |
| Bank and cash balances | *21* | **18,710** | 25,501 |
| Less: Assets classified as held for sale | *22* | **–** | (2,083) |
| Less: Bank overdrafts | *25* | **(107)** | – |
| | | **18,603** | 23,418 |

The notes on pages 38 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 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 31 March 2014.

## 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 2013, the Group's current liabilities exceeded its current assets by approximately HK$60,897,000 and the Group recorded a loss of approximately HK$69,750,000 and a net operating cash outflow of approximately HK$22,494,000 during the year ended 31 December 2013. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern 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 measures as follows:

(1) At 18 March 2014, the Group raised net proceeds of HK$23,100,000 through placing and subscription of the Company's share (note 34(ii));

(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;

(4) The Group is pursuing to dispose of its exploration and evaluation assets for cash; and

(5) 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.

## 2 BASIS OF PREPARATION *(Continued)*

### 2.1 Going Concern *(Continued)*

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 2013. 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. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. 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 following amendments to standards and interpretations are mandatory for the Group's accounting year beginning on 1 January 2013:

| | |
|---|---|
| HKAS 1 (Revised) (Amendment) | Presentation of financial statements — Presentation of items of other comprehensive income |
| HKAS 19 (2011) | Employee benefits |
| HKAS 27 (2011) | Separate financial statements |
| HKAS 28 (2011) | Investments in associates and joint ventures |
| HKFRS 1 (Amendment) | First-time adoption of government loans |
| HKFRS 7 (Amendment) | Financial instruments: Disclosures — Offsetting financial assets and financial liabilities |
| HKFRS 10 | Consolidated financial statements |
| HKFRS 11 | Joint arrangements |
| HKFRS 12 | Disclosures of interests in other entities |
| HKFRS 13 | Fair value measurement |
| HKFRSs (Amendment) | Annual improvements to HKFRSs 2009–2011 cycle |
| HK (IFRIC)-Int 20 | Stripping costs in the production phase of a surface mine |

Other than HKFRS 12 and HKFRS 13 which require more disclosures, the adoption of these new/revised standards, amendments and interpretations to existing standards do not result in any substantial changes to the Group's accounting policy nor any impact on the consolidated financial statements.

## 2 BASIS OF PREPARATION *(Continued)*

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

**(b) The following amendments to standards and interpretations are not yet effective and have not been early adopted by the Group:**

| | | Effective for accounting year beginning on or after |
|---|---|---|
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments) | Investment entities | 1 January 2014 |
| HKAS 32 (Amendment) | Financial instruments: Presentation — Offsetting financial assets and financial liabilities | 1 January 2014 |
| HKAS 36 (Amendment) | Recoverable amount disclosures for non-financial assets | 1 January 2014 |
| HKAS 39 (Amendment) | Novation of derivatives and continuation of hedge accounting | 1 January 2014 |
| HK(IFRIC) Int 21 | Levies | 1 January 2014 |
| HKFRSs (Amendment) | Annual improvements to HKFRSs 2010 – 2012 cycle | 1 July 2014 |
| HKFRSs (Amendment) | Annual improvements to HKFRSs 2011 – 2013 cycle | 1 July 2014 |
| HKFRS 7 and HKFRS 9 (Amendment) | Financial instruments: Disclosures — Mandatory effective date of HKFRS 9 and transition disclosures | * |
| HKFRS 9 | Financial instruments | * |
| Additions to HKFRS 9 | Financial instruments — financial liabilities | * |

* *The Group intends to adopt this new standard when the effective date is determined.*

## 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 structured entities) over which the Group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

***(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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Subsidiaries *(Continued)*

#### (i) Consolidation *(Continued)*

##### *(1) Business combinations (Continued)*

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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances, and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### *(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 includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) 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 the Group's presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the income statement within 'other income and gains' or 'other expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

**(iii) Translation on consolidation**

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Foreign currency translation *(Continued)*

#### (iii) Translation on consolidation *(Continued)*

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

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

#### (iv) Disposal of foreign operation and partial disposal

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

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

### (c) Property, plant and equipment

Leasehold land and buildings comprise mainly factories and offices. Leasehold land in Hong Kong 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 historical 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 | 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 | 2 to 10 years |
| Furniture, fixtures and equipment | 5 to 10 years |
| Motor vehicles | 4 to 5 years |

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Property, plant and equipment *(Continued)*

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.

### (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

**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.

### (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) Financial instruments

**Classification**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables' and 'bank and cash balances' in the consolidated statement of financial position.

**Recognition and measurement**

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortization costs using the effective interest method.

### (m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. 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.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

### (o) Cash and cash equivalents

For the purpose of the consolidated 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 and bank overdrafts.

In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

### (p) 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.

### (q) Financial liabilities

Financial liabilities 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. The accounting policies adopted for specific financial liabilities 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 payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (s) Revenue recognition

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

**(i) Sales of goods**

*(a) Toys and gifts*

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

*(b) Coal*

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

**(ii) Rental income**

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

**(iii) Interest income**

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

### (t) Employee benefits

**(i) Employee leave entitlements**

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

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

**(ii) Pension obligations — defined contribution plans**

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.

The Group has no further obligations to pay once the contributions have been paid for these Schemes.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Share-based payments

The Group issues equity-settled payments to certain directors, employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. All share-based payments are recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates. It recognises the impact of the revision to original estimates in the consolidated income statement, with a corresponding adjustment to equity.

### (v) Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated 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 liabilities are provided on taxable temporary differences arising from investments in subsidiaries, 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. Generally the Group is unable to control the reversal of the temporary difference. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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)*

### (w) Related parties

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

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

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

(2) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

### (x) Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (y) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (z) 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.

### (aa) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 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$148,312,000, in aggregate, as at 31 December 2013 (2012: HK$180,904,000) by reference to their respective fair values. For the year ended 31 December 2013, the Group recognised an impairment loss of approximately HK$38,252,000 (2012: HK$603,888,000). The directors appointed Grant Sherman Appraisal Limited ("Grant Sherman"), 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 valuation methodology, where certain estimates and assumptions were used (note 15). 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.

If the fair values of those comparable acquisitions of exploration and evaluation assets increase/decrease by 10%, the provision for impairment of exploration and evaluation assets will decrease/increase by approximately HK$10,220,000.

## 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 (note 14) and leasehold land and buildings (note 12) 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.

The fair values of investment properties and leasehold land and buildings would change by approximately HK$1,010,000 and HK$5,824,000 respectively if the market values of comparable properties or the unobservable inputs adopted under the valuation approach differ by 10% from the Group's estimates.

### (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) Current and deferred income taxes

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

Deferred income 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$, Renminbi ("RMB") and United States Dollars ("US$")) 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.

As HK$ is pegged with US$, management is of the view that there is no significant foreign exchange risk to the Group.

Included in the bank and cash balances of the Group is an aggregate amount of approximately HK$5,034,000 denominated in RMB at 31 December 2013 (2012: HK$11,924,000). 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 2013, if Renminbi had strengthened/weakened by 5% (2012: 5%) against Hong Kong dollars with all other variables held constant, pre-tax loss for the year would have been approximately HK$252,000 higher/lower (2012: HK$596,000 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 2013, 24% (2012: 26%) and 63% (2012: 66%) of the total trade receivables were due from the Group's largest customer and the five largest customers at 31 December 2013, respectively. It has policies in place to ensure that sales are made to customers with an appropriate credit history. For credit exposures to customers, management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is properly managed and significantly reduced.

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

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.

## 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 2013 | | | | | |
| Trade payables | **14,337** | **14,337** | **–** | **–** | **–** |
| Accruals and other payables | **39,344** | **39,344** | **–** | **–** | **–** |
| Borrowings and related interest payments | **79,384** | **75,614** | **675** | **2,457** | **638** |
| At 31 December 2012 | | | | | |
| Trade payables | 9,978 | 9,978 | – | – | – |
| Accruals and other payables | 71,889 | 71,889 | – | – | – |
| Borrowings and related interest payments | 59,216 | 55,357 | 644 | 1,933 | 1,282 |
| **Company** | | | | | |
| At 31 December 2013 | | | | | |
| Accruals and other payables | **25,204** | **25,204** | **–** | **–** | **–** |
| Borrowings and related interest payments | **19,198** | **19,198** | **–** | **–** | **–** |
| Due to subsidiaries | **13,124** | **13,124** | **–** | **–** | **–** |
| 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 | – | – | – |

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

### (d) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash and interest-bearing loans. Borrowings issued at variable rates exposed the Group to cash flow interest rate. Borrowings issued at fixed rates to the Group to fair value interest rate risk. 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 31 December 2013, if interest rate had increased/decreased by 200 basis points, pre-tax loss for the year would have been approximately HK$341,000 (2012: HK$287,000) higher/lower mainly as a result of an increase/a decrease in interest rate applied to the Group's floating-rate 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.

See notes 12 and 14 for disclosures of the property, plant and equipment and investment properties respectively, that are measured at fair value.

### (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 2013 and 2012.

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 2013 was 79.95% (2012: 57.48%).

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.

### (g) Offsetting financial assets and financial liabilities

There is no material financial assets or liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements.

## 6 TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Turnover | | |
| Sales of goods | **169,910** | 192,803 |
| Other income | | |
| Fair value gain on investment properties *(note 14)* | **–** | 491 |
| Moulds income | **337** | 68 |
| Interest income | **22** | 2 |
| Rental income *(note 14)* | **989** | 979 |
| Others | **568** | 341 |
| | **1,916** | 1,881 |

### Segment information

The Group has two reportable segments as follows:

Exploration — Exploration 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 ended 31 December 2012, 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).

Segment results do not include corporate finance costs and other corporate income and expenses. Segment assets do not include bank and cash balances, prepayments, deposits and other receivables at corporate level, and assets classified as held for sale (note 22). Segment liabilities do not include borrowings, 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 | | Toys and gift items | | Total | |
|---|---|---|---|---|---|---|
| | **2013** **HK$'000** | 2012 HK$'000 | **2013** **HK$'000** | 2012 HK$'000 | **2013** **HK$'000** | 2012 HK$'000 |
| **Year ended 31 December** | | | | | | |
| Revenue from external customers | **–** | – | **169,910** | 192,803 | **169,910** | 192,803 |
| **Segment results** | **(33,916)** | (454,116) | **(16,681)** | (1,427) | **(50,597)** | (455,543) |
| Depreciation and amortisation | **(8)** | (222) | **(8,902)** | (6,467) | **(8,910)** | (6,689) |
| Provision for impairment of exploration and evaluation assets | **(38,252)** | (603,888) | **–** | – | **(38,252)** | (603,888) |
| Interest income | **21** | 1 | **1** | 1 | **22** | 2 |
| Interest expenses | **–** | – | **(2,781)** | (3,531) | **(2,781)** | (3,531) |
| Income tax credit/(expenses) | **7,977** | 150,972 | **(4,056)** | (1,027) | **3,921** | 149,945 |
| **At 31 December** | | | | | | |
| Segment assets | **151,436** | 189,704 | **149,411** | 148,263 | **300,847** | 337,967 |
| Segment liabilities | **(19,818)** | (65,983) | **(98,304)** | (85,466) | **(118,122)** | (151,449) |
| Additions to segment non-current assets | **–** | – | **2,046** | 1,137 | **2,046** | 1,137 |

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

### Segment information *(Continued)*

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

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| **Reconciliation of segment results:** | | |
| Total loss of reportable segments | **(50,597)** | (455,543) |
| Unallocated amount: | | |
| Corporate finance costs | **(3,557)** | (1,623) |
| Other corporate income and expenses | **(15,596)** | (22,323) |
| Loss for the year from continuing operations | **(69,750)** | (479,489) |
| **Reconciliation of segment assets:** | | |
| Total assets of reportable segments | **300,847** | 337,967 |
| Unallocated corporate assets | | |
| Bank and cash balances | **28** | 32 |
| Prepayments, deposits and other receivables | **209** | 700 |
| | **237** | 732 |
| Assets classified as held for sale *(note 22(a))* | **–** | 38,234 |
| Total assets | **301,084** | 376,933 |
| **Reconciliation of segment liabilities:** | | |
| Total liabilities of reportable segments | **118,122** | 151,449 |
| Unallocated corporate liabilities | | |
| Borrowings | **18,300** | 5,500 |
| Accruals and other payables | **25,204** | 18,972 |
| | **43,504** | 24,472 |
| Total liabilities | **161,626** | 175,921 |

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

### Segment information *(Continued)*

**(c) Analysis of revenue by geographical location of customers:**

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| The PRC (including Hong Kong) | **2,840** | 1,940 |
| North America[1] | **152,885** | 172,514 |
| European Union[2] | **9,232** | 11,608 |
| Others[3] | **4,953** | 6,741 |
| | **169,910** | 192,803 |

[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.*

Revenue from two customers each accounted for more than 10% of the Group's total revenue for the year and represented approximately 35% and 17% of the total revenue for the year ended 31 December 2013, respectively (2012: 40% and 17%).

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

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Sales of toys and gifts items | **169,910** | 192,803 |

**(e) Analysis of non-current assets by geographical locations:**

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| The PRC (including Hong Kong) | **229,763** | 267,572 |
| USA | **1,661** | 1,304 |
| | **231,424** | 268,876 |

## 7 FINANCE COSTS

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Interest expenses on: | | |
| Bank borrowings and overdrafts | **2,622** | 2,736 |
| Other loans | **3,557** | 2,344 |
| Trust receipt loans | **159** | 74 |
| | **6,338** | 5,154 |

## 8 INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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.

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | | |
| Provision for the year | **1,082** | 55 |
| Under/(over)-provision of prior years | **49** | (42) |
| | **1,131** | 13 |
| Overseas | | |
| Provision for the year | **691** | 1,613 |
| Under-provision of prior years | **254** | – |
| | **945** | 1,613 |
| Total current tax | **2,076** | 1,626 |
| Deferred income tax *(note 26)* | **(5,997)** | (151,571) |
| Income tax credit | **(3,921)** | (149,945) |

The reconciliation between the income tax credit and loss before tax multiplied by Hong Kong profits tax rate is as follows:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Loss before tax | **(73,671)** | (629,434) |
| Tax at the applicable tax of 16.5% (2012: 16.5%) | **(12,156)** | (103,857) |
| Tax effect of income that is not taxable | **(75)** | (122) |
| Tax effect of expenses that are not deductible | **7,211** | 6,181 |
| Tax effect of utilisation of tax losses not previously recognised | **–** | (1,050) |
| Tax effect of unused tax losses not recognised | **834** | 781 |
| Tax effect of temporary differences over-recognised | **1,891** | – |
| Under/(over)-provision for prior years | **303** | (42) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(1,929)** | (51,836) |
| Income tax credit | **(3,921)** | (149,945) |

## 8 INCOME TAX CREDIT *(Continued)*

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **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 | **5,176** | **–** | **5,176** | (2,601) | – | (2,601) |
| Surplus on revaluation of properties | **2,609** | **411*** | **3,020** | 12,631 | (1,903) | 10,728 |
| Other comprehensive income | **7,785** | **411** | **8,196** | 10,030 | (1,903) | 8,127 |
| Current tax | | **–** | | | – | |
| Deferred income tax *(note 26)* | | **411** | | | (1,903) | |
| | | **411** | | | (1,903) | |

* *Includes the effect of the reversal of over-provision of deferred income tax liabilities of HK$831,000 due to revaluation of properties in prior years.*

## 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:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Amortisation of other intangible asset *(note 17)* | **12** | 11 |
| Auditor's remuneration | **2,000** | 2,000 |
| Provision for impairment of trade receivables *(note 20)* | **11** | – |
| Provision for impairment of other receivables[1] | **403** | – |
| Provision/(write back of provision) for inventories obsolescence | **393** | (338) |
| Cost of inventories sold | **85,051** | 92,833 |
| Forfeiture of deposit[1] | **–** | (1,227) |
| Depreciation of property, plant and equipment *(note 12)* | **8,779** | 6,832 |
| Amortisation of prepaid land lease payments *(note 13)* | **119** | 116 |
| Fair value loss on investment properties *(note 14)*[1] | **36** | – |
| Write-off and loss on disposals of property, plant and equipment[1] | **1,485** | 71 |
| Minimum lease payments under operating leases in respect of leasehold land and buildings | **5,633** | 5,447 |
| Net foreign exchange loss/(gain)[1] | **107** | (1,924) |
| Research and development expenditure | **2,635** | 2,984 |
| Staff costs (excluding directors' remuneration *(note 11)*) | | |
| Salaries, bonus and allowance | **34,524** | 33,685 |
| Retirement benefits scheme contributions | **1,703** | 1,381 |
| Share-based payment expenses | **–** | 1,158 |
| | **36,227** | 36,224 |

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

## 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, if any.

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:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| **Loss attributable to the equity holders of the Company** | | |
| Loss from continuing operations for the purpose of calculating basic and diluted loss per share | **(71,826)** | (483,412) |
| Loss from discontinued operation attributable to equity holders of the Company | **–** | (25,447) |
| | **(71,826)** | (508,859) |

| | **2013** | 2012 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share | **1,193,860,934** | 5,945,744,672 |
| — Effect on share consolidation subsequent to the end of the reporting period | **–** | (4,756,595,738) |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share | **1,193,860,934** | 1,189,148,934 |

## 10 LOSS PER SHARE *(Continued)*

For the year ended 31 December 2012, 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 27(a)).

For the years ended 31 December 2013 and 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.

## 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 2013**

| 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 | – | 15 | 2,277 |
| Mr. Yu Won Kong, Dennis[2] | – | 3,900 | – | 15 | 3,915 |
| Mr. Cheung Kai Fung (appointed on 1 August 2013) | – | 558 | – | 6 | 564 |
| *Non-executive director* | | | | | |
| Mr. Lam Kit Sun (redesignated from Executive director to non-executive director on 1 August 2013) | – | 820 | – | 9 | 829 |
| *Independent non-executive directors* | | | | | |
| Mr. Lam Siu Lun, Simon | – | 120 | – | – | 120 |
| Mr. Zhang Xianmin | – | 120 | – | – | 120 |
| Mr. So Chun Pong, Ricky (appointed on 31 May 2013) | – | 70 | – | – | 70 |
| Mr. Jin Peihuang (resigned on 31 May 2013) | – | 50 | – | – | 50 |
| | – | 7,900 | – | 45 | 7,945 |

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

### (a) Directors' remuneration *(Continued)*

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 (redesignated from Executive director to non-executive director on 1 August 2013) | – | 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 (resigned on 31 May 2013) | – | 120 | 170 | – | 290 |
| | – | 10,308 | 3,196 | 140 | 13,644 |

1 *Chairman*

2 *Chief executive officer*

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2012: HK$Nil).

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

### (b) Five highest paid individuals' remuneration

The five highest paid individuals during the year included three (2012: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2012: one) highest paid individual are as follows:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,579** | 1,690 |
| Retirement benefits scheme contributions | **125** | 169 |
| | **2,704** | 1,859 |

The emoluments fell within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2013** | 2012 |
| HK$Nil–HK$1,000,000 | **1** | – |
| HK$1,500,001–HK$2,000,000 | **1** | 1 |
| | **2** | 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 (2012: HK$Nil).

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Leasehold land and buildings | Mining structure | Leasehold improvements | Plant and machinery | Moulds | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost or valuation** | | | | | | | | | |
| At 1 January 2012 | 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 |
| Additions | – | – | 125 | 139 | 655 | 1,127 | – | – | 2,046 |
| Adjustment on revaluation to equity | (147) | – | – | – | – | – | – | – | (147) |
| Disposal/written off | – | – | – | (825) | (9,689) | (1,563) | (575) | – | (12,652) |
| Exchange difference | 556 | – | – | 234 | 871 | 605 | 86 | – | 2,352 |
| At 31 December 2013 | 58,240 | – | 3,550 | 12,118 | 31,524 | 9,500 | 3,232 | – | 118,164 |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| At 1 January 2012 | – | 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 |
| Charge for the year | 2,756 | – | 113 | 346 | 4,785 | 625 | 154 | – | 8,779 |
| Adjustment on revaluation to equity | (2,756) | – | – | – | – | – | – | – | (2,756) |
| Disposal/written off | – | – | – | (711) | (8,541) | (1,382) | (533) | – | (11,167) |
| Exchange difference | – | – | – | 177 | 747 | 540 | (10) | – | 1,454 |
| At 31 December 2013 | – | – | 3,315 | 9,701 | 28,957 | 6,054 | 2,854 | – | 50,881 |
| **Carrying amount** | | | | | | | | | |
| At 31 December 2013 | 58,240 | – | 235 | 2,417 | 2,567 | 3,446 | 378 | – | 67,283 |
| At 31 December 2012 | 57,831 | – | 223 | 2,681 | 7,721 | 3,060 | 478 | – | 71,994 |

## 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 2013** | | | | | | | | | |
| At cost | **–** | **–** | **3,550** | **12,118** | **31,524** | **9,500** | **3,232** | **–** | **59,924** |
| At valuation | **58,240** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **58,240** |
| | **58,240** | **–** | **3,550** | **12,118** | **31,524** | **9,500** | **3,232** | **–** | **118,164** |
| **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 |

During the year ended 31 December 2013, the Company did not acquire or dispose of any property, plant and equipment, and depreciation was HK$Nil (2012: HK$271,000) was charged to income statement. At 31 December 2013 and 2012, the leasehold improvements, the only property, plant and equipment of the Company, was fully depreciated.

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

| | Group | |
|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 |
| Held under medium term leases in Hong Kong | **40,340** | 39,631 |
| Held under medium term leases in the PRC | **17,900** | 18,200 |
| | **58,240** | 57,831 |

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 31 December 2013 would have been HK$18,463,000 (2012: HK$19,259,000).

At 31 December 2013, the Group's property, plant and equipment with an aggregate carrying amount of HK$56,790,000 (2012: HK$56,440,000) 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$Nil (note 22) were transferred to assets classified as held for sale during the year ended 31 December 2013 (2012: HK$35,488,000).

Depreciation expenses of approximately HK$5,352,000 (2012: HK$2,872,000) and HK$3,427,000 (2012: HK$3,960,000) 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$8,779,000 (note 9) and HK$Nil (2012: HK$6,832,000 and HK$1,325,000), respectively.

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

### Fair value hierarchy

| | Leasehold land and building (Note) | | |
|---|---|---|---|
| | Hong Kong HK$'000 | PRC HK$'000 | Total HK$'000 |
| At 1 January 2013 | 39,630 | 18,201 | 57,831 |
| Surplus/(deficit) on revaluation | 2,727 | (118) | 2,609 |
| Depreciation | (2,017) | (739) | (2,756) |
| Exchange differences | – | 556 | 556 |
| At 31 December 2013 | 40,340 | 17,900 | 58,240 |
| Total revaluation gain/(loss) for the year credited/(charged) to the property revaluation reserve | 2,727 | (118) | 2,609 |

*Note: All the leasehold land and building are measured under Level 3, inputs for the asset or liability are not based on observable market data (that is, unobservable inputs)*

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers among Levels 1, 2 and 3 during the year.

### Valuation basis

**(a) Valuation processes**

The Group obtains independent valuations for its leasehold land and building and investment properties at least annually. In the current year, the valuations are performed by Grant Sherman, an independent firm of professional valuer. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors review the valuations performed by Grant Sherman for financial reporting purposes. Discussions of valuation processes and results are held between the directors and valuer at least annually, in line with the Group's annual report date.

At each financial year end the directors:

(i) verify all major inputs to the independent valuation report;

(ii) assess property valuations movements when compared to prior year valuation report; and

(iii) hold discussions with the independent valuer.

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

### Valuation basis *(Continued)*

**(b) Valuation techniques**

For leasehold land and building and investment properties located in Hong Kong and the PRC, the valuation was determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for significant unobservable inputs.

| Description | Fair value at 31 December 2013 HK$'000 | Valuation technique(s) | Unobservable inputs | Relationship of unobservable inputs |
|---|---|---|---|---|
| Leasehold land and building — Hong Kong | 1,450 | Direct comparison approach | HK$936,000 — HK$2,400,000 per unit | The higher the price, the higher the fair value |
| Leasehold land and building — Hong Kong | 38,890 | Direct comparison approach | HK$2,176 – HK$3,319 per square feet | The higher the price, the higher the fair value |
| Leasehold land and building — Xiamen, the PRC | 17,900 | Direct comparison approach | HK$456 — HK$613 per square meter | The higher the price, the higher the fair value |

## 13 PREPAID LAND LEASE PAYMENTS

| | Group HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2012 | 5,790 |
| Exchange difference | (1) |
| At 31 December 2012 | 5,789 |
| Exchange difference | 181 |
| At 31 December 2013 | 5,970 |
| **Accumulated amortisation** | |
| At 1 January 2012 | 916 |
| Charge for the year *(note 9)* | 116 |
| Exchange difference | 2 |
| At 31 December 2012 | 1,034 |
| Charge for the year *(note 9)* | 119 |
| Exchange difference | 34 |
| At 31 December 2013 | 1,187 |
| **Carrying amount** | |
| At 31 December 2013 | 4,783 |
| At 31 December 2012 | 4,755 |

## 13 PREPAID LAND LEASE PAYMENTS *(Continued)*

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

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Held under medium term leases in the PRC | **4,783** | 4,755 |

At 31 December 2013, the Group's prepaid land lease payments with an aggregate carrying amount of approximately HK$4,783,000 (2012: HK$4,755,000) were pledged to secure banking facilities granted to the Group (note 25).

At 31 December 2013, prepaid land lease payments of approximately HK$4,659,000 (2012: HK$4,635,000) were classified as non-current assets while approximately HK$124,000 (2012: HK$120,000) were classified as current assets and grouped under "prepayments, deposits and other receivables" in the consolidated statement of financial position.

## 14 INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| At 1 January | **9,850** | 9,358 |
| Exchange difference | **286** | 1 |
| Fair value (loss)/gain *(note 9 and note 6)* | **(36)** | 491 |
| At 31 December | **10,100** | 9,850 |

The Group's investment properties are analysed as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Held under medium term leases in Hong Kong | **700** | 650 |
| Held under medium term leases in the PRC | **9,400** | 9,200 |
| | **10,100** | 9,850 |

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

## 14 INVESTMENT PROPERTIES *(Continued)*

The amounts recognised in the consolidated income statement for investment properties are as follows:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Rental income *(note 6)* | **989** | 979 |
| Direct operating expenses from property that generated rental income | **(1)** | (1) |
| | **988** | 978 |

As at 31 December 2013, the Group had no unprovided contractual obligations for future repairs and maintenance (2012: Nil).

At 31 December 2013, the Group's investment properties with an aggregate carrying amount of approximately HK$9,400,000 (2012: HK$9,200,000) were pledged to secure banking facilities granted to the Group (note 25).

### Fair value hierarchy

| | **Investment properties (Note)** | | |
|---|---|---|---|
| | **Hong Kong HK$'000** | **The PRC HK$'000** | **Total HK$'000** |
| At 1 January 2013 | **650** | **9,200** | **9,850** |
| Fair value (loss)/gain | **50** | **(86)** | **(36)** |
| Exchange difference | **–** | **286** | **286** |
| At 31 December 2013 | **700** | **9,400** | **10,100** |
| Total fair value (loss)/gain for the year included in consolidated income statement for assets held at the end of the year, under "Other (losses)/gains, net" | **50** | **(86)** | **(36)** |

*Note: All the properties are measured under Level 3, inputs for the asset or liability are not based on observable market data (that is, unobservable inputs).*

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers among Levels 1, 2 and 3 during the year.

## 14 INVESTMENT PROPERTIES *(Continued)*

### Valuation basis

The valuation basis of investment properties was mentioned in note 12.

| Description | Fair value at 31 December 2013 HK$'000 | Valuation technique(s) | Unobservable inputs | Relationship of unobservable inputs |
|---|---|---|---|---|
| Car parking Space — Hong Kong | 700 | Direct comparison approach | HK$670,000 — HK868,000 per unit | The higher the price, the higher the fair value |
| Office unit — Xiamen, the PRC | 9,400 | Direct comparison approach | HK$19,190 — HK$20,587 per square meter | The higher the price, the higher the fair value |

## 15 EXPLORATION AND EVALUATION ASSETS

| | Group HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2012 | 1,372,456 |
| Exchange difference | (112) |
| At 31 December 2012 | 1,372,344 |
| Exchange difference | 42,940 |
| At 31 December 2013 | 1,415,284 |
| **Accumulated impairment loss** | |
| At 1 January 2012 | 584,381 |
| Impairment loss | 603,888 |
| Exchange difference | 3,171 |
| At 31 December 2012 | 1,191,440 |
| Impairment loss | 38,252 |
| Exchange difference | 37,280 |
| At 31 December 2013 | 1,266,972 |
| **Carrying amount** | |
| At 31 December 2013 | 148,312 |
| At 31 December 2012 | 180,904 |

## 15 EXPLORATION AND EVALUATION ASSETS *(Continued)*

The exploration and evaluation assets are attributable to Bayanhushuo Coal Field ("BCF") and Guerbanhada Coal Mine ("GCM"). At 31 December 2013, the carrying amount is attributable to BCF of approximately HK$108,813,000 (2012: HK$134,612,000) and GCM of approximately HK$39,499,000 (2012: HK$46,292,000).

The current licence period of the exploration right of BCF and GCM is from 4 July 2012 to 4 July 2014 and from 23 September 2013 to 22 September 2015, respectively. The Group will apply for the renewal of the licence period of the exploration right of BCF during the six months period ending 30 June 2014 and the directors are confident that such renewal will be approved.

On 18 April 2012, the Development and Reform Commission of Inner Mongolia Autonomous Region (內蒙古自治區發展和改革委員會) circulated a consultation paper (內發改能源函[2012]176 號 — 關於徵求《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》)意見的函) (the "Consultation Paper") among various governmental departments of Inner Mongolia Autonomous Region of the PRC (the "Consultation"), with an objective to adjust and enhance the government policy in managing the coal resources in Inner Mongolia Autonomous Region of the PRC. It is expected that the Group may take longer time to get the approval from the governments of Inner Mongolia Autonomous Region of the PRC and the PRC in applying the mining licences in the future. In addition, company unable to transfer its exploration right into mining right may be entitled to return the exploration right to the government for receiving a compensation equivalent to two times of its incurred exploration expenditures. Currently, the Consultation Paper has yet to become legally effective and the Group will closely monitor the development of the Consultation and assess the impact to the Group.

The carrying values of the exploration and evaluation assets were tested for impairment as at 31 December 2013 using the fair value less costs to sell model. The recoverable amounts of the exploration and evaluation assets as valued by Grant Sherman, an independent firm of professional valuer, were significantly lower than their carrying values, and accordingly, an impairment loss of approximately HK$38,252,000 has been charged in the consolidated income statement for the year ended 31 December 2013 (2012: HK$603,888,000).

The fair values were developed primarily through the application of a market valuation methodology, where comparable acquisition of exploration and evaluation assets were identified and analysed to determine the approximate value of the Group's assets.

To derive the fair value, such approximate value was then adjusted to reflect (i) the estimated difference in coal quality and coal type among the identified comparable transactions and the mines owned by the Group; and (ii) the estimated time difference between the comparable transactions and the valuation date; and (iii) the estimated likelihood that the mines would be sold in open market or returned to the government pursuant to the terms of the Consultation Paper.

The resulting fair value indicates an impairment loss of HK$38,252,000 was required in the current 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 BCF and GCM 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); (ii) the expectation that it may take longer time to get the approval from the governments of Inner Mongolia Autonomous Region of the PRC and the PRC in applying for the mining licences in the future as a result of the Consultation; and (iii) the decrease in coal price in the PRC market during the year ended 31 December 2013.

## 16 MINING RIGHT

| | Group HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2012 | 38,532 |
| Transferred to assets classified as held for sale *(note 22)* | (38,528) |
| Exchange difference | (4) |
| At 31 December 2012 | – |
| Exchange difference | – |
| At 31 December 2013 | – |
| **Accumulated amortisation and impairment loss** | |
| At 1 January 2012 | 38,532 |
| Transferred to assets classified as held for sale *(note 22)* | (38,528) |
| Exchange difference | (4) |
| At 31 December 2012 | – |
| Exchange difference | – |
| At 31 December 2013 | – |
| **Carrying amount** | |
| At 31 December 2013 | – |
| At 31 December 2012 | – |

The mining right represents the mining right of HCM that is held by Inner Mongolia Run Heng Mining Company Limited ("Run Heng"), formerly known as "Tongliao City Heng Yuan Mining Company Limited". HCM is located in the Inner Mongolia Autonomous Region of the PRC.

On 14 November 2012, Run Heng entered into an agreement pursuant to which Run Heng 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. Therefore, the Disposal Assets were reclassified as "assets classified as held for sale" in the consolidated statement of financial position at 31 December 2012 in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operation" (note 22). The disposal was completed in early 2013.

## 17 OTHER INTANGIBLE ASSET

| | Group Trademark HK$'000 *(note a)* |
|---|---|
| **Cost** | |
| At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013 | 1,155 |
| **Accumulated amortisation** | |
| At 1 January 2012 | 62 |
| Amortisation for the year *(note 9)* | 11 |
| At 31 December 2012 | 73 |
| Amortisation for the year *(note 9)* | 12 |
| At 31 December 2013 | 85 |
| **Carrying amount** | |
| At 31 December 2013 | 1,070 |
| At 31 December 2012 | 1,082 |

*Note:*

(a) *The amortisation of approximately HK$12,000 (2012: HK$11,000) (note 9) has been included in "selling and distribution costs" in the consolidated income statement.*

## 18 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 |
| Unlisted investments at cost | **1,001,767** | 1,001,768 |
| Due from subsidiaries | **240,851** | 284,773 |
| Less: Impairment losses | **(1,046,768)** | (1,000,795) |
| | **195,850** | 285,746 |

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 2013 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.[1]) | The PRC, limited liability company | RMB10,000,000 | – | 100% | Manufacture and trading of gifts and toys, The PRC |
| 福建嘉雄玩具有限公司 (Fujian Ka Hung Toys Co., Ltd.[1]) | The PRC, limited liability company | RMB10,000,000 | – | 100% | Manufacture and trading of gifts and toys, The PRC |
| 內蒙古銘潤峰能源有限公司 (Inner Mongolia Mingrunfeng Energy Co., Ltd.[1]) | The PRC, limited liability company | RMB53,000,000 | – | 100% | Exploration and mining, The PRC |

## 18 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries at 31 December 2013 are as follows: (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 | |
| 內蒙古潤恒礦業有限公司 (Inner Mongolia Run Heng 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 | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Raw materials | **11,177** | 10,572 |
| Work in progress | **3,860** | 4,437 |
| Finished goods | **12,156** | 7,737 |
| | **27,193** | 22,746 |
| Less: Provision for inventories obsolescence | **(4,308)** | (3,915) |
| | **22,885** | 18,831 |

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$120,637,000 (2012: HK$133,285,000), which included provision for inventories obsolescence of HK$393,000 (2012: write-back of provision for inventories obsolescence of HK$338,000).

## 20 TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **18,521** | 17,049 |
| Less: provision for impairment | **(11)** | – |
| Trade receivables, net | **18,510** | 17,049 |

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 | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | 81 |
| Provision for impairment *(note 9)* | **11** | – |
| Receivables written off during the year as uncollectible | **–** | (81) |
| At 31 December | **11** | – |

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.

## 20 TRADE RECEIVABLES *(Continued)*

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **11,776** | 10,165 |
| 31 days to 90 days | **5,658** | 5,256 |
| 91 days to 180 days | **985** | 1,075 |
| 181 days to 360 days | **49** | 368 |
| Over 360 days | **42** | 185 |
| | **18,510** | 17,049 |

At 31 December 2013, trade receivables of approximately HK$5,584,000 (2012: HK$6,363,000) 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 | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within 90 days | **4,912** | 5,100 |
| 91 days to 180 days | **582** | 853 |
| 181 days to 360 days | **38** | 215 |
| Over 360 days | **52** | 195 |
| | **5,584** | 6,363 |

At 31 December 2013, trade receivables of approximately HK$11,000 (2012: HK$Nil) 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 | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| 181 days to 360 days | **11** | – |
| | **11** | – |

## 20 TRADE RECEIVABLES *(Continued)*

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| US$ | **18,403** | 16,933 |
| RMB | **107** | 116 |
| | **18,510** | 17,049 |

At 31 December 2013 and 2012, 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 2013, the Group's trade receivables with an aggregate carrying amount of HK$Nil (2012: HK$3,463,000) were pledged to secure banking facilities granted to the Group (note 25).

## 21 BANK AND CASH BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at bank and in hand | **18,710** | 23,418 | **28** | 32 |
| Maximum exposure to credit risk | **18,496** | 23,332 | **26** | 31 |

Bank and cash balances are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **916** | 603 | **28** | 32 |
| RMB | **5,034** | 9,841 | **–** | – |
| US$ | **12,760** | 12,974 | **–** | – |
| | **18,710** | 23,418 | **28** | 32 |

## 21 BANK AND CASH BALANCES *(Continued)*

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

| | Group | |
|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 |
| Cash and cash equivalents | **18,710** | 25,501 |
| Less: assets classified as held for sale *(note 22)* | **–** | (2,083) |
| Bank and cash balances | **18,710** | 23,418 |

The conversion of RMB denominated balances into other currencies and the remittance of such bank balances and cash out of PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 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).

The transaction was completed in early 2013 and the non-current assets held for sales were derecognised accordingly.

| | Group 2012 HK$'000 |
|---|---|
| Operating cash flows | (10,269) |
| Investing cash flows | 26,542 |
| Financing cash flows | (12,003) |
| **Total cash flows** | 4,270 |

### (a) Assets classified as held for sale

| | Group 2012 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 |

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

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

| | Group 2012 HK$'000 |
|---|---|
| Foreign exchange translation adjustments | 30 |
| **Total** | 30 |

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

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

## 23 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables | **14,337** | 9,978 | **–** | – |
| Accruals and payables | **39,344** | 33,655 | **25,204** | 18,972 |
| Deposit received for the disposal of assets classified as held for sale *(note 22(a))* | **–** | 38,234 | **–** | – |
| | **53,681** | 81,867 | **25,204** | 18,972 |

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **9,690** | 6,221 |
| 31 days to 90 days | **1,596** | 2,027 |
| 91 days to 180 days | **2,109** | 1,258 |
| 181 days to 360 days | **626** | 121 |
| Over 360 days | **316** | 351 |
| | **14,337** | 9,978 |

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| HK$ | **9** | 7 |
| US$ | **3,470** | 3,615 |
| RMB | **10,858** | 6,356 |
| | **14,337** | 9,978 |

At 31 December 2013 and 2012, 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 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank loans | **38,526** | 40,671 | **–** | – |
| Trust receipt loans | **3,760** | 4,491 | **–** | – |
| Other loans | **33,764** | 11,543 | **18,300** | 5,500 |
| Bank overdrafts | **107** | – | **–** | – |
| Total borrowings | **76,157** | 56,705 | **18,300** | 5,500 |
| Secured *(note (a))* | **58,964** | 47,162 | **16,300** | 2,000 |
| Unsecured | **17,193** | 9,543 | **2,000** | 3,500 |

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using an average effective interest rate of 9.54% (2012: 8.58%) and are within level 2 of the fair value hierarchy.

At 31 December 2013 and 2012, the borrowings were repayable on demand.

*Notes:*

*(a) Facilities*

*At 31 December 2013, 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$70,973,000 (2012: HK$73,858,000);*

*(ii) a personal guarantee by the Company's directors (note 33(iv)) of approximately HK$23,365,000 (2012: HK$10,254,000); and*

*(iii) a personal guarantee by a director of the Company's indirect non-wholly owned subsidiary (note 33(iv)) of approximately HK$3,889,000 (2012: HK$3,361,000).*

## 25 BORROWINGS *(Continued)*

*Notes: (Continued)*

(b) *Bank borrowings bear average effective interest rate of 9.54% annually (2012: 8.58% annually).*

At 31 December 2013 and 31 December 2012, the borrowings, based on respective repayment schedules, were as follows:

| | Group | | | | | | | | Company | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Bank borrowing and overdrafts | | Trust receipts loan | | Other loans | | Total | | Other loans | |
| | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 |
| Within 1 year | **35,597** | 37,552 | **3,760** | 4,491 | **33,493** | 11,543 | **72,850** | 53,586 | **18,300** | 5,500 |
| Between 1 and 2 years | **508** | 644 | **–** | – | **–** | – | **508** | 644 | **–** | – |
| Between 2 and 5 years | **1,909** | 1,934 | **–** | – | **271** | – | **2,180** | 1,934 | **–** | – |
| Over 5 years | **619** | 541 | **–** | – | **–** | – | **619** | 541 | **–** | – |
| | **38,633** | 40,671 | **3,760** | 4,491 | **33,764** | 11,543 | **76,157** | 56,705 | **18,300** | 5,500 |

| | Group | | | | | | | | Company | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Bank borrowings and overdrafts | | Trust loan | | Other loans | | Total | | Other loans | |
| | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 |
| Wholly repayable within 5 years | **35,328** | 36,908 | **3,760** | 4,491 | **33,764** | 11,543 | **72,852** | 52,942 | **18,300** | 5,500 |
| Wholly repayable after 5 years | **3,305** | 3,763 | **–** | – | **–** | – | **3,305** | 3,763 | **–** | – |
| | **38,633** | 40,671 | **3,760** | 4,491 | **33,764** | 11,543 | **76,157** | 56,705 | **18,300** | 5,500 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 |
| US$ | **7,650** | 6,074 | **–** | – |
| HK$ | **21,605** | 13,754 | **18,300** | 5,500 |
| RMB | **46,902** | 36,877 | **–** | – |
| | **76,157** | 56,705 | **18,300** | 5,500 |

## 26 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.

As at 31 December 2013 and 2012, majority of the deferred income tax assets and deferred income tax liabilities are expected to be recovered twelve months after reporting period end.

The net movements in the deferred income tax account is as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Beginning of the year | **(36,559)** | (187,059) |
| Credited to consolidated income statement *(note 8)* | **5,997** | 151,571 |
| Charged to equity *(note 8)* | **411** | (1,903) |
| Exchange difference | **(918)** | 832 |
| End of the year | **(31,069)** | (36,559) |

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** |
|---|---|
| | **Total** |
| | **HK$'000** |
| **Decelerated tax depreciation** | |
| At 1 January 2012 | – |
| Credited to consolidated income statement | 411 |
| At 31 December 2012 and 1 January 2013 | **411** |
| Charged to consolidated income statement | **(98)** |
| Exchange difference | **40** |
| At 31 December 2013 | **353** |

## 26 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

| | Group | | | |
|---|---|---|---|---|
| | Accelerated tax depreciation HK$'000 | Revaluation surplus on investment properties and leasehold land and buildings HK$'000 | Exploration and evaluation assets HK$'000 | Total HK$'000 |
| At 1 January 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 and 1 January 2013 | **–** | **10,103** | **26,867** | **36,970** |
| Credited to equity | **–** | **(411)** | **–** | **(411)** |
| Charged/(credited) to consolidated income statement | **180** | **1,702** | **(7,977)** | **(6,095)** |
| Exchange difference | **–** | **116** | **842** | **958** |
| At 31 December 2013 | **180** | **11,510** | **19,732** | **31,422** |

The Group has tax losses arising in Hong Kong of approximately HK$12,176,000 (2012: HK$7,121,000) and the PRC of approximately HK$15,530,000 (2012: HK$15,530,000), which are available for offsetting against future taxable profits of the subsidiaries in which the losses arose, respectively. The tax losses arising in Hong Kong have no expiry date. The tax losses arising in the PRC will be fully expired in 2015 and 2016. No deferred tax assets have been recognised due to the unpredictability of future taxable profit of these subsidiaries. Tax losses of approximately HK$27,706,000 (2012: HK$22,651,000) is subject to further approval by relevant tax authorities.

## 27 SHARE CAPITAL

| | | Number of shares | | Ordinary share capital | |
|---|---|---|---|---|---|
| | *Note* | **2013** | 2012 | **2013 HK$'000** | 2012 HK$'000 |
| **Authorised:** | | | | | |
| Ordinary shares of HK$0.1 each (2012: HK$0.02 each) | *(note (a))* | **2,000,000,000** | 10,000,000,000 | **200,000** | 200,000 |
| **Issued and fully paid:** | | | | | |
| At beginning of year | *(note (a))* | **1,193,860,934** | 5,769,304,672 | **119,386** | 115,386 |
| Issue of shares on | | | | | |
| — On placement | *(note (b))* | **–** | 200,000,000 | **–** | 4,000 |
| — Exercise of share options | | **–** | – | **–** | – |
| At end of year | | **1,193,860,934** | 5,969,304,672 | **119,386** | 119,386 |

## 27 SHARE CAPITAL *(Continued)*

*Notes:*

***(a) Share Consolidation***

*On 14 January 2013, the Board 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. An ordinary resolution to approve the Share Consolidation was duly passed by the Shareholders by way of poll at the extraordinary general meeting of the Company held on 7 February 2013.*

***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 under the share option scheme adopted by the Company on 28 May 2002 (the "Share Option Scheme") in accordance with (i) Rule 17.03(13) of the Rules Governing the Listing of Securities on the Stock Exchange (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; and (iii) the Share Option Scheme in the following manner with effect from 8 February 2013:*

| | 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 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.*

***(b)*** *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 28(b)) was credited to the Company's share premium account for the year ended 31 December 2012.*

## 28 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 2012 | 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 27(b))* | 8,000 | – | – | – | 8,000 |
| Recognition of share-based payment *(note 29)* | – | – | 4,354 | – | 4,354 |
| Release on expiry/forfeiture of share options *(note 29)* | – | – | (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 |
| **Total comprehensive loss for the year** | – | – | – | (61,554) | (61,554) |
| **Transactions with equity holders** | | | | | |
| Release on expiry/forfeiture of share options *(note 29)* | – | – | (177) | 177 | – |
| **Total transactions with equity holders** | – | – | (177) | 177 | – |
| At 31 December 2013 | 984,947 | 125,161 | 7,393 | (1,097,637) | 19,864 |

Loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$61,554,000 (2012: HK$496,885,000).

## 29 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 | | |

* *Before adjusting the effect of share consolidation at 8 February 2013 (note 27(a)).*

## 29 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% |

## 29 SHARE-BASED PAYMENT *(Continued)*

*Notes: (Continued)*

(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%** |

Details of the share options outstanding during the year, after adjusting the effect of share consolidation at 8 February 2013, are as follows:

**For the year ended 31 December 2013**

| | 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 HK$ |
|---|---|---|---|---|---|---|---|---|---|
| Employees | 2006(a) | 1,096,000 | – | – | – | – | 1,096,000 | 1,096,000 | 0.5080 |
| | 2006(b) | 8,059,720 | – | – | – | (19,600) | 8,040,120 | 8,040,120 | 0.5080 |
| | 2007 | 660,000 | – | – | – | – | 660,000 | 660,000 | 3.7000 |
| | 2012(a) | 16,900,000 | – | – | – | (900,000) | 16,000,000 | 16,000,000 | 0.3220 |
| | 2012(b) | 16,900,000 | – | – | – | (900,000) | 16,000,000 | 16,000,000 | 0.3865 |
| | | 43,615,720 | – | – | – | (1,819,600) | 41,796,120 | 41,796,120 | |
| | | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | |
| Weighted average closing price | | – | – | – | – | – | – | – | |
| Weighted average exercise price | | 0.4372 | – | – | – | 0.3559 | 0.4407 | 0.4407 | |

## 29 SHARE-BASED PAYMENT *(Continued)*

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 HK$ |
|---|---|---|---|---|---|---|---|---|---|
| Employees | 2006(a) | 1,096,000 | – | – | – | – | 1,096,000 | 1,096,000 | 0.5080 |
| | 2006(b) | 8,252,520 | – | – | – | (192,800) | 8,059,720 | 8,059,720 | 0.5080 |
| | 2007 | 660,000 | – | – | – | – | 660,000 | 660,000 | 3.7000 |
| | 2009(a) | 1,200,000 | – | – | (1,200,000) | – | – | – | 2.0000 |
| | 2009(b) | 1,200,000 | – | – | (1,200,000) | – | – | – | 3.0000 |
| | 2009(d) | 600,000 | – | – | (600,000) | – | – | – | 2.1200 |
| | 2009(e) | 600,000 | – | – | (600,000) | – | – | – | 3.0000 |
| | 2010(a) | 6,800,000 | – | – | (6,800,000) | – | – | – | 2.0000 |
| | 2010(b) | 6,800,000 | – | – | (6,800,000) | – | – | – | 3.0000 |
| | 2012(a) | – | 22,800,000 | – | – | (5,900,000) | 16,900,000 | 16,900,000 | 0.3220 |
| | 2012(b) | – | 22,800,000 | – | – | (5,900,000) | 16,900,000 | 16,900,000 | 0.3865 |
| | | 27,208,520 | 45,600,000 | – | (17,200,000) | (11,992,800) | 43,615,720 | 43,615,720 | |
| Weighted average closing price | | – | – | – | – | – | – | – | |
| Weighted average exercise price | | HK$1.8473 | HK$0.3543 | – | HK$2.5042 | HK$0.3567 | HK$0.4372 | HK$0.4372 | |
| Weighted average of share price at grant date | | – | HK$0.0955 | – | – | – | – | – | |

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 |
| Weighted average of share price at grant date | HK$0.0955 | HK$0.0955 |
| Early exercise multiple — employee/employer | 2.2/2.8 | 2.2/2.8 |
| Post-vesting forfeiture rate — employee | 6.32%/0.04% | 6.32%/0.04% |

The Group recognised HK$Nil (2012: HK$4,354,000) (note 28(b)) share-based payment expenses in the consolidated income statement for the year ended 31 December 2013, of which the amount has been included as staff costs, and the corresponding amount has been credited to share-based payment reserve.

## 29 SHARE-BASED PAYMENT *(Continued)*

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 2013, the total carrying value of expired/forfeited options is approximately HK$177,000 (2012: HK$9,086,000) (note 28(b)) which has been transferred from share-based payment reserve to accumulated losses.

## 30 CONTINGENT LIABILITIES

At 31 December 2013 and 2012, the Group and the Company had no contingent liability respectively.

## 31 CAPITAL COMMITMENTS

At 31 December 2013 and 31 December 2012, the Group and the Company had no capital commitments respectively.

## 32 LEASE COMMITMENTS

At 31 December 2013, the Group's future aggregate minimum lease receivables and payables under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| **As lessor:** | | |
| No later than 1 year | **228** | 182 |
| **As lessee:** | | |
| No later than 1 year | **4,492** | 4,240 |
| Later than 1 year and no later than 5 years | **3,563** | 1,767 |
| Later than 5 years | **–** | 91 |
| | **8,055** | 6,098 |

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.

## 33 RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with its related parties:

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

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Product development, sale and marketing services fee paid to a related company *(note a)* | **1,663** | 1,663 |

*Note:*

*(a) The sole owner of the related company is also the director and beneficial owner of 49% (2012: 49%) equity interest in the Company's subsidiary paying for the services.*

### (ii) Outstanding balance with related parties

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 | **2013 HK$'000** | 2012 HK$'000 |
| Prepayment, deposits and other receivables | | | | |
| — Amount due from a related company | **493** | – | **–** | – |
| — Amount due from a non-controlling interest | **1,197** | 1,216 | **–** | – |
| | **1,690** | 1,216 | **–** | – |
| Accruals and other payable | | | | |
| — Amount due to a director | **92** | – | **92** | – |

The amounts due from related parties are unsecured interest free and repayment on demand.

### (iii) Key management compensation

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **11,661** | 14,505 |
| Share-based payments | **–** | 3,373 |
| Retirement benefits scheme contributions | **203** | 470 |
| | **11,864** | 18,348 |

### (iv) Guarantee provided by related parties

At 31 December 2013, the Group's borrowings of approximately HK$23,365,000 (2012: HK$10,254,000) and HK$3,889,000 (2012: HK$3,361,000) were secured by a personal guarantee by the Company's directors and a director of the Company's indirect non-wholly owned subsidiary, respectively (note 25).

## 34 EVENTS AFTER THE REPORTING PERIOD

### (i) MOU with Delight Grace

On 8 March 2014, Joint Hero Holdings Limited ("Joint Hero"), a wholly owned subsidiary of the Company entered into a non-legally binding memorandum of understanding ("MOU with Delight Grace") with Delight Grace Limited ("Delight Grace"), an independent third party regarding a possible acquisition of certain equity interests of Multijoy Developments Limited (the "Target Company"), in which its subsidiary is an owner of a land situated at Jiangxi province of the PRC with a total area of approximately 2,265 mu after reorganisation to be carried out by Delight Grace and the Target Company. The consideration for this possible acquisition shall be subject to further negotiation between Joint Hero and Delight Grace and shall be settled by cash or such other methods agreed between Joint Hero and Delight Grace.

### (ii) Placing and Subscription

On 18 March 2014, the Company entered into a conditional placing and subscription agreement with Legend Win Profits Limited, Grand Field Capital Investment Limited (collectively, the "Subscribers") and a placing agent for (i) the placing of up to an aggregate of 135,000,000 ordinary shares of HK$0.10 each of the Company at the best effort basis at the placing price of HK$0.175 per share; and (ii) the subscription of up to 135,000,000 new ordinary shares of HK$0.10 each of the Company to the Subscribers at the subscription price of HK$0.175 per share (together, the "Placing and Subscription").

The Placing and Subscription was completed on 31 March 2014. The net proceeds of the Placing and Subscription (after deducting expenses of the Placing and Subscription) amounted to approximately HK$23,100,000.

### (iii) Lapse of MOU of GCM

On 28 March 2013, 28 June 2013 and 2 October 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 (the "MOU of GCM"), the supplemental MOU of GCM and the second supplemental MOU of GCM with Xilinguolemeng Wulagai River Mineral Company Limited, an independent third party ("Wulagai River"), and Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng"), an indirectly wholly-owned subsidiary of the Company, in relation to the possible sale by the Vendors of the entire equity interest in Mingrunfeng to Wulagai River at a consideration of RMB50,000,000 (equivalent to approximately HK$64,000,000). Mingrunfeng is the holder of the exploration right of GCM, which is the principal asset of Mingrunfeng. The validity period of the MOU of GCM is before 31 March 2014.

As no formal sale and purchase agreement has been entered into between the Vendors and Wulagai River before 31 March 2014 nor there be an agreement reached in extending the date of entering into the formal sale and purchase agreement, the MOU of GCM has automatically lapsed immediately after 30 March 2014. Save for certain legally binding provisions including those relating to confidentiality obligations, each of the Vendors, Wulagai River and Mingrunfeng is released from the MOU of GCM.

## 35 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 31 March 2014.

# 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 | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **169,910** | 192,803 | 184,550 | 186,095 | 121,556 |
| (Loss)/profit before income tax[3] | **(73,671)** | (654,881) | (39,032) | 6,315 | (201,644) |
| Income tax credit/(charge) | **3,921** | 149,945 | (1,155) | (1,344) | (1,988) |
| (Loss)/profit for the year | **(69,750)** | (504,936) | (40,187) | 4,971 | (203,632) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(71,826)** | (508,859) | (40,539) | 6,313 | (203,314) |
| Non-controlling interests | **2,076** | 3,923 | 352 | (1,342) | (318) |
| | **(69,750)** | (504,936) | (40,187) | 4,971 | (203,632) |

## ASSETS AND LIABILITIES

| | 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **301,084** | 376,933 | 976,425 | 951,152 | 897,149 |
| Total liabilities | **(161,626)** | (175,921) | (294,958) | (500,318) | (699,029) |
| Net assets | **139,458** | 201,012 | 681,467 | 450,834 | 198,120 |
| Equity attributable to equity holders of the Company | **131,375** | 195,005 | 679,383 | 450,543 | 196,487 |
| Non-controlling interests | **8,083** | 6,007 | 2,084 | 291 | 1,633 |
| Total equity | **139,458** | 201,012 | 681,467 | 450,834 | 198,120 |

*Notes:*

*(1) The consolidated income statement for the years ended 31 December 2013 and 2012 are set out on page 29 of this annual report.*

*(2) The consolidated statement of financial position at 31 December 2013 and 31 December 2012 are set out on pages 31 to 32 of this annual report.*

*(3) The loss before income tax of the Group for the year ended 31 December 2013 included loss before income tax from continuing operations and discontinued operation of approximately HK$73,671,000 and HK$Nil, respectively (2012: approximately HK$629,434,000 and HK$25,447,000, respectively).*