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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

The Board (the "Board") of Directors (the "Directors") of Kiu Hung Energy Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009, together with the restated comparative figures for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2009	2008
	Note	***HK$'000***	*HK$'000*
			(Restated)
Turnover	*5*	**121,556**	133,357
Cost of sales		**(90,905)**	(91,760)
Gross profit		**30,651**	41,597
Other income	*5*	**93,440**	155,514
Selling and distribution costs		**(15,814)**	(18,000)
Administrative expenses		**(34,432)**	(31,361)
Other operating expenses		**(113,096)**	(532,349)
Loss from operations		**(39,251)**	(384,599)
Finance costs	*6*	**(23,060)**	(18,705)
Share of (loss)/profit of a jointly-controlled entity		**(366)**	449
Loss before tax		**(62,677)**	(402,855)
Income tax (expense)/credit	*7*	**(1,988)**	150,144
Loss for the year	*8*	**(64,665)**	(252,711)
Attributable to:			
Equity holders of the Company		**(64,347)**	(253,080)
Minority interests		**(318)**	369
		(64,665)	(252,711)
		HK cents	*HK cents*
Loss per share	*9*		
Basic		**(1.55)**	(6.54)
Diluted		**(3.22)**	(9.35)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Loss for the year	**(64,665)**	(252,711)
Other comprehensive income:		
Exchange differences on translating foreign operations	**143**	37,774
Surplus/(deficits) on revaluation of properties	**2,615**	(297)
Deferred tax arising on revaluation of properties	**220**	(95)
Less: Reclassification adjustment for exchange difference to profit or loss upon disposal of subsidiaries	**–**	(3,995)
Other comprehensive income for the year, net of tax	**2,978**	33,387
Total comprehensive income for the year	**(61,687)**	(219,324)
Attributable to:		
Equity holders of the Company	**(61,369)**	(219,693)
Minority interests	**(318)**	369
	(61,687)	(219,324)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 31 December 2009** *HK$'000*	At 31 December 2008 *HK$'000* (Restated)	At 1 January 2008 *HK$'000* (Restated)
Non-current assets				
Property, plant and equipment		**66,978**	63,768	57,990
Prepaid land lease payments		**4,643**	4,742	6,299
Investment properties		**3,600**	3,440	400
Goodwill	*11*	**–**	–	–
Exploration and evaluation assets	*12*	**711,889**	711,889	343,627
Mining rights		**–**	–	–
Other intangible assets		**1,117**	1,129	1,789
Interest in a jointly-controlled entity		**1,377**	1,743	524
Deposit		**–**	–	3,000
		789,604	786,711	413,629
Current assets				
Inventories		**6,106**	9,329	9,860
Trade receivables	*13*	**2,804**	5,014	9,108
Prepayments, deposits and other receivables		**3,647**	2,833	9,548
Due from a jointly-controlled entity		**593**	3,256	3,443
Prepaid land lease payments		**98**	98	151
Current tax assets		**511**	218	85
Financial assets at fair value through profit or loss		**286**	286	286
Bank and cash balances		**82,713**	69,019	70,557
		96,758	90,053	103,038
Current liabilities				
Trade and bills payables	*14*	**12,896**	10,165	9,256
Accruals and other payables		**27,304**	21,585	17,864
Current tax liabilities		**789**	398	1,051
Borrowings		**38,285**	38,884	32,263
Derivative financial instruments	*15*	**–**	1,059	–
Promissory notes	*16*	**–**	95,416	–
		79,274	167,507	60,434
Net current assets/(liabilities)		**17,484**	(77,454)	42,604
Total assets less current liabilities		**807,088**	709,257	456,233
Non-current liabilities				
Borrowings		**4,609**	18,376	1,284
Deferred tax liabilities		**168,301**	168,521	104,906
Convertible notes	*15*	**–**	234,128	–
Financial liabilities at fair value through profit or loss	*17*	**302,741**	–	–
		475,651	421,025	106,190
NET ASSETS		**331,437**	288,232	350,043
Capital and reserves				
Share capital		**88,546**	82,315	68,132
Reserves		**241,258**	203,966	280,329
Total equity attributable to equity holders of the Company		**329,804**	286,281	348,461
Minority interests		**1,633**	1,951	1,582
TOTAL EQUITY		**331,437**	288,232	350,043

NOTES:

1. GENERAL INFORMATION

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

The Company is an investment holding Company. The principal activities of its subsidiaries are manufacture and sales of toys and gifts items and the exploration and mining of natural resources.

2. BASIS OF PREPARATION

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

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgment in the process of applying the Group's accounting policies.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

(b) Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segment reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

4. PRIOR PERIOD ADJUSTMENTS

The Group has made several prior period adjustments ("Prior Period Adjustments") in its consolidated financial statements for the year ended 31 December 2008 and its consolidated statement of financial position as at 1 January 2008. The Prior Period Adjustments mainly include adjustments to the accounting treatment of the two acquisitions completed by the Company's indirectly wholly owned subsidiaries, Bright Assets Investments Limited ("Bright Assets"), substantially referring to the acquisition of the exploration and evaluation assets of Guerbanhada Coal Mine ("GCM") owned as to 100% by Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng") during 2007, and Growth Gain Investments Limited ("Growth Gain"), substantially referring to the acquisition of the exploration and evaluation assets of Bayanhushuo Coal Field ("BCF") and the mining rights of Huanghaushan Coal Mine ("HCM") owned as to 100% by Tongliao City Heng Yuan Mining Company Limited ("Heng Yuan") during 2008, respectively.

Since the Group did not recognise a separate asset for the exploration rights of GCM and BCF at the respective acquisition dates during 2007 and 2008, respectively, the exploration rights of GCM and BCF had not been separately recognised from goodwill. After marking the Prior Period Adjustments, exploration and evaluation assets (including the exploration rights of GCM and BCF) as at 31 December 2008 and 1 January 2008 were restated to approximately HK$711,889,000 and HK$343,627,000, respectively (as previously reported as at 31 December 2008 and 1 January 2008: approximately HK$53,484,000 and HK$38,346,000).

As a result of the Prior Period Adjustments, loss attributable to equity holders of the Company increased from approximately HK$158,549,000 to HK$253,080,000 for the year ended 31 December 2008. This was mainly due to the further impairment loss of approximately HK$237,300,000 to the carrying value of the exploration and evaluation assets of GCM and BCF recognised, its corresponding impact resulting in a decrease in deferred tax liabilities of approximately HK$118,346,000 and the further decrease in deferred tax liabilities as income tax credit of approximately HK$24,422,000 due to a decrease in the effective income tax rate from 33% to 25% effective from 1 January 2008 for the year ended 31 December 2008. Net assets as at 31 December 2008 and 1 January 2008 have decreased from approximately HK$452,833,000 to HK$288,232,000, and from approximately HK$449,095,000 to HK$350,043,000, respectively, as a result of the increase in deferred tax liabilities in relation to the Prior Period Adjustments.

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2009	2008
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**121,556**	133,357
Other income		
Fair value gain on derivative component of convertible notes *(Note 15)*	**979**	146,040
Fair value gain on investment properties	**158**	334
Gain on disposal of subsidiaries	**–**	7,018
Gain on derecognition of convertible notes upon change of terms *(Note 15)*	**88,897**	–
Interest income	**218**	540
Rental income	**156**	209
Sale of moulds	**1,716**	235
Others	**1,316**	1,138
	93,440	155,514

Segment information

The Group has two reportable segments as follows:

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

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

Segment profits or losses do not include gain on derecognition of convertible notes, fair value gain of derivative component of convertible notes, fair value loss on financial liabilities at fair value through profit or loss, other corporate income and other corporate expenses. Segment assets do not include bank and cash balances at corporate level and other corporate assets. Segment liabilities do not include financial liabilities at fair value through profit or loss, borrowings, promissory notes, convertible notes and other corporate liabilities.

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

	Exploration and mining		Toys and gifts items		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)				(Restated)
Year ended 31 December						
Revenue from external customers	**421**	–	**121,135**	133,357	**121,556**	133,357
Segment loss	**(13,458)**	(389,714)	**(7,473)**	(842)	**(20,931)**	(390,556)
Depreciation and amortisation	**206**	212	**6,139**	6,576	**6,345**	6,788
Interest income	**11**	6	**207**	532	**218**	538
Interest expenses	**4,317**	4,546	**644**	1,448	**4,961**	5,994
Impairment loss on exploration and evaluation assets	**–**	473,383	**–**	–	**–**	473,383
Impairment loss on goodwill	**–**	20,266	**–**	–	**–**	20,266
Impairment loss on mining rights	**–**	35,493	**–**	–	**–**	35,493
Allowance for amount due from a jointly-controlled entity	**–**	–	**1,857**	–	**1,857**	–
Additions to segment non-current assets	**486**	876,882	**6,399**	1,247	**6,885**	878,129
At 31 December						
Segment assets	**741,941**	735,576	**84,524**	140,982	**826,465**	876,558
Segment liabilities	**206,164**	201,303	**40,546**	24,033	**246,710**	225,336

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

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Segment loss		
Total loss of reportable segments	**(20,931)**	(390,556)
Unallocated amounts:		
Corporate expenses		
Fair value loss on financial liabilities at fair value through profit or loss	**(110,079)**	–
Others	**(23,531)**	(15,262)
	(133,610)	(15,262)
Corporate income		
Gain on derecognition of convertible notes upon change of terms	**88,897**	–
Fair value gain of derivative component of convertible notes	**979**	146,040
Others	**–**	7,067
	89,876	153,107
Loss for the year	**(64,665)**	(252,711)

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Segment assets		
Total assets of reportable segments	**826,465**	876,558
Unallocated corporate assets		
Bank and cash balances	**59,406**	36
Others	**491**	170
	59,897	206
	886,362	876,764

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Segment liabilities		
Total liabilities of reportable segments	**246,710**	225,336
Unallocated corporate liabilities		
Financial liabilities at fair value through profit or loss	**302,741**	–
Borrowings	**2,000**	29,500
Promissory notes	**–**	95,416
Convertible notes	**–**	234,128
Others	**3,474**	4,152
	308,215	363,196
	554,925	588,532

(c) Geographical information:

	Revenue	
	2009	2008
	HK$'000	*HK$'000*
The PRC (including Hong Kong)	**4,277**	9,565
North America*	**91,069**	104,538
European Union**	**18,634**	11,764
Others***	**7,576**	7,490
	121,556	133,357

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

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

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

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

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

6. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans	**6,808**	2,314
Liability component of convertible notes wholly repayable within 5 years *(note 15)*	**11,935**	11,477
Other loans wholly repayable within 5 years	**4,317**	2,743
Trust receipt loans	**–**	369
Others	**–**	1,802
	23,060	18,705

7. INCOME TAX EXPENSE/(CREDIT)

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Current tax		
Hong Kong Profits Tax		
Provision for the year	**82**	885
Under/(over)-provision in prior years	**577**	(17)
	659	868
Overseas		
Provision for the year	**1,079**	–
Under-provision in prior years	**250**	–
	1,329	–
Deferred tax	**–**	(151,012)
	1,988	(150,144)

Hong Kong Profits Tax is provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the respective jurisdictions in which the subsidiaries of the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. LOSS FOR THE YEAR

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

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Amortisation of other intangible assets	**12**	660
Auditor's remuneration	**1,000**	750
Allowance for amount due from a jointly-controlled entity	**1,857**	–
Bad debts written off	**3**	847
Cost of inventories sold	**90,905**	91,760
Depreciation	**6,235**	5,977
Fair value loss on financial liabilities at fair value through profit or loss *(note 17)*	**110,079**	–
Impairment loss on exploration and evaluation assets* *(note 12)*	**–**	473,383
Impairment loss on goodwill* *(note 11)*	**–**	20,266
Impairment loss on mining rights*	**–**	35,493
Loss on disposals of property, plant and equipment*	**–**	87
Minimum lease payments under operating leases in respect of leasehold land and buildings	**600**	573
Net foreign exchange loss*	**555**	2,342
Research and development expenditure	**607**	713
(Reversal of)/allowance for inventories	**(478)**	3,022
Directors' remuneration	**5,380**	5,139
Staff costs (excluding directors' remuneration)		
Salaries, bonus and allowance	**24,570**	21,014
Retirement benefits scheme contributions	**2,588**	932
Share-based payment expenses	**428**	1,152
	27,586	23,098

* *Included in other operating expenses*

9. LOSS PER SHARE

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

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Loss		
Loss for the purpose of calculating basic loss per share	**64,347**	253,080
Finance costs saving on conversion of convertible notes outstanding	**(11,935)**	(11,477)
Fair value gain on derivative component of convertible notes	**979**	146,040
Gain on derecognition of convertible notes upon change of terms	**88,897**	–
Loss for the purpose of calculating diluted loss per share	**142,288**	387,643
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**4,145,795,645**	3,872,395,894
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	**272,460,919**	275,683,154
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**4,418,256,564**	4,148,079,048

For the year ended 31 December 2009, there was no dilutive effect in relation to the outstanding share options (granted in 2007 and 2009) and non-listed warrants as the average market price of ordinary shares was below the exercise price of the share options and non-listed warrants, and there was anti-dilutive effect in relation to the outstanding share options (granted in 2006) and financial liabilities at fair value through profit or loss.

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

10. FINAL DIVIDEND

The Board does not recommend the payment of any final dividend in respect of the year (2008: Nil) .

11. GOODWILL

	HK$'000 (Restated)
Cost	
At 1 January 2008	66,588
Acquisition of subsidiaries	19,815
Exchange difference	451
At 31 December 2008, 1 January 2009 and 31 December 2009	86,854
Accumulated impairment loss	
At 1 January 2008	66,588
Impairment loss *(note 8)*	20,266
At 31 December 2008, 1 January 2009 and 31 December 2009	86,854
Carrying amount	
At 31 December 2009	–
At 31 December 2008	–

Goodwill is allocated, at acquisition, to the cash generating unit ("CGU") that are expected to benefit from that business combination.

During the year ended 31 December 2007, the Group acquired Mingrunfeng which holds an exploration rights certificate in GCM located in the Inner Mongolia Autonomous Region of the PRC. The exploration rights certificate has a exploration period from 22 September 2009 to 22 September 2011 and is subject to renewal.

During the year ended 31 December 2008, the Group acquired Lucky Dragon Resources Limited and its subsidiary, Heng Yuan (collectively referred to as the "Lucky Dragon Group"). Heng Yuan holds an exploration rights certificate in BCF located in the Inner Mongolia Autonomous Region. The exploration rights certificate has a exploration period from 5 July 2008 to 4 July 2010 and is subject to renewal. Heng Yuan also holds a mining rights certificate of HCM located in the Inner Mongolia Autonomous Region. The mining rights certificate has been renewed with a mining period from August 2008 to August 2011.

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

The carrying amounts of the goodwill arising from the acquisition of Lucky Dragon Group and Mingrunfeng together with the carrying amounts of exploration and evaluation assets (note 12) are allocated to exploration and mining CGU which are directly attributable to the potential mining rights of GCM and BCF respectively. The directors considered that the goodwill arising from acquisition of HCM was immaterial since the potential mining values (in terms of coal reserve) of HCM is substantially less than that of BCF.

The directors assessed the carrying amounts of goodwill and exploration and evaluation assets based on the recoverable amounts of GCM and BCF which are estimated at the higher of the fair value less cost to sell by reference to the market value as at 31 December 2009 issued by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professional valuers and the value in use. The fair value less costs to sell were developed through the application of the market approach which relied on Guideline Transaction method with reference to the historical market transaction prices for acquisition of coal mine with similar exploration rights. The directors firstly allocated the impairment loss to goodwill and then to exploration and evaluation assets. The directors considered that a decline of the average auction price of similar exploration rights of coal mines in the market place in comparable transactions during the year ended 31 December 2008 led to a decrease of the amount of the fair value less cost to sell of GCM and BCF. Impairment loss of approximately HK$20,266,000 was provided for the carrying amount of goodwill for the year ended 31 December 2008.

12. EXPLORATION AND EVALUATION ASSETS

	HK$'000 (Restated)
Cost	
At 1 January 2008	408,605
Acquisition of subsidiaries	800,989
Exchange difference	40,656
At 31 December 2008, 1 January 2009 and 31 December 2009	1,250,250
Accumulated impairment loss	
At 1 January 2008	64,978
Impairment loss *(note 8)*	473,383
At 31 December 2008, 1 January 2009 and 31 December 2009	538,361
Carrying amount	
At 31 December 2009	711,889
At 31 December 2008	711,889

As explained in note 11, the exploration and evaluation assets are attributable to GCM and BCF respectively. The directors considered that a decline of the average auction price of similar exploration rights of coal mines in the market place in comparable transactions during the year ended 31 December 2008 led to a decrease of the amount of the fair value less cost to sell of GCM and BCF. Impairment loss of approximately HK$473,383,000 was provided for the carrying amount of exploration and evaluation assets for the year ended 31 December 2008.

13. TRADE RECEIVABLES

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

	At 31 December 2009	At 31 December 2008
	HK$'000	*HK$'000*
Within 30 days	**2,683**	4,280
31 days to 90 days	**121**	552
91 days to 180 days	**–**	130
181 days to 360 days	**–**	52
	2,804	5,014

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

14. TRADE AND BILLS PAYABLES

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

	At 31 December 2009	At 31 December 2008
	HK$'000	*HK$'000*
Within 30 days	**2,812**	3,740
31 days to 90 days	**3,231**	2,751
91 days to 180 days	**5,024**	2,646
181 days to 360 days	**1,329**	733
Over 360 days	**500**	295
	12,896	10,165

15. CONVERTIBLE NOTES

On 28 March 2008, the convertible notes of nominal value of HK$254,065,000 ("CN1") were issued as part of the consideration for an acquisition of subsidiaries. Pursuant to the terms of CN1, CN1 are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of CN1 and 28 March 2010. Any CN1 not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

On 2 October 2009, the Company and CN1 holders entered into a deed to alter certain terms of CN1. A summary of the salient points of the changes in terms is set out in note 17. Liability and derivative components of CN1 have been derecognised as a result of substantial changes in terms of CN1.

The fair value of CN1 has been split between the liability component and derivative component as follows:

	Liability component *HK$'000*	**Derivative component** *HK$'000*	**Total** *HK$'000*
At 28 March 2008	222,651	147,099	369,750
Interest expense *(note 6)*	11,477	–	11,477
Fair value gain on derivative component of CN1 *(note 5)*	–	(146,040)	(146,040)
At 31 December 2008 and 1 January 2009	234,128	1,059	235,187
Interest expense *(note 6)*	11,935	–	11,935
Fair value gain on derivative component of CN1 *(note 5)*	–	(979)	(979)
Transfer to Altered CN1 upon change of terms *(note 17)*	(157,246)	–	(157,246)
Gain on derecognition upon change of terms *(note 5)*	(88,817)	(80)	(88,897)
At 31 December 2009	–	–	–

16. PROMISSORY NOTES

During the year ended 31 December 2008, the promissory notes were issued as part of the consideration for the acquisition of Lucky Dragon Group. The promissory notes are unsecured, interest-free and repayable on or before 28 September 2009 subject to the condition that the Company shall repay the promissory notes to note holder once the Company has sufficient funds for repayment.

On 2 October 2009, principal amount of HK$60,000,000 of the promissory notes was repaid by the Company in cash. The remaining principal amount of approximately HK$35,416,000 of the promissory notes was satisfied by the subscription price of CN2 (note 17).

17. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

On 2 October 2009, the convertible notes of nominal value of approximately HK$35,416,000 ("CN2") were issued, and the subscription price payable by CN2 holders was satisfied by capitalizing outstanding principal amount of the promissory notes of approximately HK$35,416,000 (note 16). The terms of CN2 are same as Altered CN1. The management has designated the entire CN2 as financial liabilities at fair value through profit or loss.

	Altered CN1	**CN2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Transfer from CN1 upon change of terms *(note 15)*	157,246	–	157,246
Issue of CN2	–	35,416	35,416
Fair value loss *(note 8)*	89,469	20,610	110,079
At 31 December 2009	246,715	56,026	302,741

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the financial year ended 31 December 2009 (the "Year"), the Group recorded a turnover of approximately HK$121.6 million (2008: HK$133.4 million), representing a decrease of approximately 8.8% as compared with the preceding year. The Group's loss attributable to shareholders for the Year was approximately HK$64.3 million (2008: HK$253.1 million). Basic loss per share for the Year was HK$1.55 cents (2008: HK$6.54 cents).

The Group recorded fair value loss on financial liabilities at fair value through profit or loss amounting to approximately HK$110.1 million in other operating expenses while the Group recorded net fair value revaluation loss of assets amounting to HK$383.2 million for the year ended 31 December 2008 (among which included approximately HK$473.4 million of impairment loss on exploration and evaluation assets, approximately HK$20.3 million of impairment loss on goodwill, approximately HK$35.5 million of impairment loss on mining rights in other operating expenses and less fair value gain on derivative component of convertible notes approximately HK$146.0 million in other income). The Group also recorded gain on derecognition of convertible notes upon change of terms amounting to approximately HK$88.9 million in other income (2008: Nil). These were all non-cash items and were not expected to have material adverse effects on the Group's cash flow.

Dividend

The board of directors does not recommend the payment of any dividend in respect of the Year (2008: Nil).

Business and Operational Review

Segmental Information Analysis

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

Manufacturing and trading of toys and gifts items

Since the Global Economy has not fully recovered from the Financial Turmoil in prior years, the Group has experienced a certain level of impact on sales and profit margin in its toys and gifts business. Turnover from toys and gift business is approximately HK$121.1 million (2008: HK$133.4 million), representing a decrease of approximately 9.2% as compared with the preceding year. Under this challenge, the Group restructured its product mix and focused on household utility products and closely monitor on cost control. The gross profit ratio of its toys and gifts business was 28.3% for the Year (2008:31.2%).

Exploration and mining of natural resources

The Group owned three coal mines, namely the HCM, the GCM and the BCF with a total of approximately 571.5 million tons of coal.

The HCM had officially commenced production in December 2009 as scheduled and recorded a revenue of HK$421,000 during the Year (2008: Nil). The HCM is located in Tongliao City of Inner Mongolia Autonomous Region ("Inner Mongolia") in China and is close to the railway. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, the Huanghuashan Coal Mine has estimated coal resources of approximately 7.85 million tons of semi-anthracite coal.

The GCM is located in Xilinguolemeng of Inner Mongolia and is close to highways and railways. According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, the GCM has an estimated coal resources of approximately 106 million tons of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. According to a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007, the estimated coal reserve of the GCM has increased to approximately 128.86 million tons as a result of the completion of the detailed stage of exploration. The Group is in the process of preparing documents required in respect of the mining license application of the GCM.

BCF is located in Xilinguolemeng of Inner Mongolia. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, the BCF has estimated coal resource of approximately 434.76 million tons of high quality thermal coal.

Geographic information

During the year, the North American includes the United States of America and Canada recorded as largest drop in revenue by geographic market, where turnover amounted to approximately HK$91.1 million compared to HK$104.5 million last year and represented 74.9% of the Group's total sales. Sales in the European Union (includes Spain, Italy, France and United Kingdom), represented approximately 15.3% of the Group's total sales, increased from approximately HK$11.8 million last year to HK$18.6 million for the Year.

Other income

Other income for the Year decreased by approximately 39.9% to approximately HK$93.4 million when compared to approximately HK$155.5 million incurred in the previous year. The decrease was mainly due to the net effect of (i) decrease of the recognition of fair value gain on derivative component of convertible notes amounting to HK$145.1 million; (ii) increase on gain on derecognition of convertible notes upon change of terms amounting to HK$88.9 million; and (iii) decrease in gain on disposal of subsidiaries amounting to HK$7.0 million.

Selling and distribution expenses

Selling and distribution expenses for the Year decreased by approximately 12.2% to approximately HK$15.8 million when compared to approximately HK$18.0 million incurred in the previous year. The decrease was mainly due to the implementation of cost control over the Year.

Administrative expenses

Administrative expenses for the Year increased by approximately 9.6% to approximately HK$34.4 million when compared to approximately HK$31.4 million incurred in the previous year. The increase was mainly due to additional administrative expenses was incurred for the development of mining and exploration of coal business.

Other operating expenses

Other operating expenses for the Year decreased by approximately 78.8% to approximately HK$113.1 million when compared to approximately HK$532.3 million incurred in the previous year. The decrease was mainly due to the Group incurred total impairment loss amounting to HK$529.2 million in the previous year (among which included approximately HK$473.4 million of impairment loss on exploration and evaluation assets, approximately HK$20.3 million of impairment loss on goodwill, approximately HK$35.5 million of impairment loss on mining rights), while the Group only incurred fair value revaluation loss on financial liabilities at fair value through profit or loss amounting to approximately HK$110.1 million for the Year and no other impairment loss on the Group's assets was recorded for the Year.

Finance costs

Finance cost for the Year increased by approximately 23.5% to approximately HK$23.1 million when compared to approximately HK$18.7 million incurred in the previous year. The increase was mainly due to the increase of the bank loan interest by approximately HK$4.5 million as the result of the increase of the bank loans during the Year.

Income tax

For the year ended 31 December 2008, the Group recorded income tax credit of approximately HK$150.1 million while the Group recorded income tax expenses of approximately HK$2.0 million for the Year. The increase of income tax expenses by approximately HK$152.1 million is mainly due to the recognisation of deferred tax credit amounting to HK$151.0 million in the previous year as a result of the recognition of the impairment loss of the mining rights and exploration and evaluation assets. As the Group did not have any other impairment loss on the mining rights and exploration and evaluation assets for the Year, the Group did not record any deferred tax credit for the Year.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the People's Republic of China ("PRC"). The Group had cash and bank balances of approximately HK$82.7 million as at the year end date (2008: HK$69.0 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2009, the Group's bank and other borrowings amounted to approximately HK$42.9 million (2008: HK$57.3 million), out of which approximately 89.3% (2008: 67.9%) was repayable within one year. The Group's bank and other borrowings were made in Hong Kong dollars and Renminbi, of which approximately 88.3% (2008: 93.4%) bore interest at fixed lending rate.

In addition, the Group had financial liabilities at fair value through profit or loss of approximately HK$302.7 million at 31 December 2009 (2008: Nil), out of which (i) approximately HK$157.2 million was transfer from the convertible note at 31 December 2008 upon change of terms as disclosed in the Company's circular dated 20 October 2009; (ii) approximately HK$35.4 million was subscribed by capitalising the equivalent outstanding principal amount of the promissory notes during the year as disclosed in the Company's circular dated 20 October 2009; and (iii) a fair value loss on financial liabilities at fair value of approximately HK$110.1 million during the year.

As at 31 December 2008, the Group had the promissory notes of approximately HK$95.4 million. Out of which, approximately HK$60 million of the promissory notes was repaid during the year and approximately HK$35.4 million was capitalised to subscribe the financial liabilities at fair value through profit or loss with the same amount. The Group did not have any outstanding promissory notes as at 31 December 2009.

As at 31 December 2008, the Group had the derivative financial instruments of approximately HK$1.1 million. Out of which, approximately HK$979,000 was recognised as fair value gain on derivative component in the consolidated income statement and approximately HK$80,000 was recognised as gain on derecognition upon change of terms as disclosed in the Company's circular dated 20 October 2009. The Group did not have any outstanding derivative financial instruments as at 31 December 2009.

As at 31 December 2008, the Group had the convertible notes of approximately HK$234.1 million. The Group also incurred interest expenses for the convertible notes of approximately HK$11.9 million for the year ended 31 December 2009. On 20 October 2009, the total outstanding amount of convertible note is approximately HK$246.1 million. Upon change of terms as disclosed in the Company's circular dated 20 October 2009, convertible notes of approximately HK$157.2 million was transferred to financial liabilities at fair value through profit and loss account and the remaining balance of approximately HK$88.9 million was recognised as gain on derecognition. The Group did not have any outstanding convertible notes as at 31 December 2009.

The debt to equity ratio of the Group calculated as a ratio of total bank and other borrowings (including promissory notes, convertible notes, derivative financial instruments and financial liabilities at fair value through profit or loss) to total equity was approximately 104.3% as at 31 December 2009 (2008: 134.6%).

Net current assets of the Group as at 31 December 2009 was approximately HK$17.5 million (2008: net current liabilities of approximately HK$77.5 million) and the current ratio of the Group was approximately 122.1% (2008: 53.8%).

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

As at 31 December 2009, certain property, plant and equipment and prepared land lease payments held by the Group with carrying values of approximately HK$28.0 million (2008: 9.3 million) and 4.7 million (2008: Nil), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2009, the Group did not have any significant capital commitment or contingent liabilities (2008: Nil).

Business Prospects and Future Plans for Material Investment

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

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

On 24 February 2010 (complemented by supplemental agreement dated 3 March 2010), the Group has entered into a contract to acquire three coal mines in the Khovd Province of Mongolia at a total consideration of HK$1,439.1 million. The total consideration will be satisfied by (i) as to HK$12,275,000 by payment in cash; (ii) as to HK$209,200,000 by the issue of the Company's new shares; and (iii) up to HK$1,217,625,000 by the issue of the convertible notes. The mines are preliminarily estimated to have coking coal resources of not less than 360 million tons (the "Acquisition"). Coking coal is a high quality coal mainly used in steelmaking. Along with the growth in China's steelmaking volume, there is also a constant increase in the demand for coking coal. In China, coking coal production is insufficient to meet the demand of the steelmaking industry,. Mongolia is located in the northern part of China where high quality coking coal can be found and its geographical location which is in close proximity to regions of Xinjiang and Inner Mongolia in Northwest China is advantageous for providing supplies to the local steel industry. Therefore, the Group's acquisition plan in Mongolian is in line with the business development strategies of our coal business. The Acquisition is yet to be completed. For further details of the Acquisition, please refer to the Company's announcements on 3 February, 17 March and 7 April in this year. Further details on the Acquisition will be announced by the Company at appropriate time.

In 2010, we closely look into coal mine projects in Mongolia. We believe that the substantial proven coal resources in Mongolia are not only a good fit for our energy business expansion strategy also fulfills the increasing coal importing demand of China. Mongolia is estimated to have huge amount of coal reserves, and the exporting amount of coal products to China is expected to increase sharply due to the increasingly friendly regulations for cross border trading from both sides. Though the lack of infrastructure in Mongolia is one of the reasons that coal reserves have not been well-developed in the past, the continuing attention and geographically advantage of Mongolia is still one of the best options to fulfill the future coal product demands in north-western part of China.

On 1 April 2010, the Group concluded a non-binding Memorandum of Understanding on the possibility of acquisition ("Potential Acquisition") of Sino View Group Limited (the "Target"). The principal assets of the Target is ten coal mines in Guizhou which are preliminarily estimated to have coal resources of approximately 690 million tons and the Target and its subsidiaries ("Target Group") will hold one exploration and nine mining permits of the mines upon completion of restructuring. The total price for the Potential Acquisition shall not be over HK$5.8 billion but shall exceed HK$4 billion. Besides, if formal agreement is to be concluded going forward, the formal agreement will include a term to the effect that the vendor will irrevocably warrant and guarantee to the Group that the audited consolidated profits after tax of the Target Group for the financial year ending 31 December 2010 and 31 December 2011 will not be less than RMB200,000,000 and RMB400,000,000, respectively. For further details of the Potential Acquisition, please refer to the Company's announcements on 1 April 2010. Further details on the Potential Acquisition will be announced by the Company at appropriate time.

As the Group has an aggregate amount of existing coal resources of over 570 million tons, we will be able to tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value. With the committed efforts of the staffs and management, we are confident and optimistic on the prospects of the Group.

Capital Structure and Use of Proceeds

As at 31 December 2009, the capital structure of the Company is constituted of 4,427,306,800 ordinary shares of HK$0.02 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options and warrants to subscribe for shares in the Company.

During the year, 11,547,000 new shares (2008: 2,169,200 new shares) have been issued by the Company as a result of the exercise of share options by the option holders. During the year, 27,000,000 new share options (2008: Nil) have been granted under the share option scheme adopted by the Company. As at 31 December 2009, 56,018,600 share options remained outstanding (2008:40,175,600 share options).

Pursuant to the Company's announcement dated 20 October 2009, 200,000,000 non-listed warrants (the "Warrants") have been issued by the Company at HK$0.0025 per unit of warrant to five subscribers, namely, Chan Shuk Ling, Cheng Mei Ying Michelle, Cheng Wing On Alan, Cheung Mau Hung and Wong Chun Chau on 20 October 2009. Each of the Subscribers has agreed to subscribe for 40,000,000 Warrants at HK$0.0025 per unit of Warrants, each entitles the holder thereof to subscribe for one new ordinary shares of the Company at the subscription price of HK$0.5 at any time during the a period of twelve months commencing from the date of issue of the Warrants. As at 31 December 2009, no Warrants have been exercised by the Warrants holders. Taking into account, among other fees, legal fees, printing expenses and the fees for the application of listing of the New Shares, the net warrant issue price is approximately HK$0.002 per Warrant. It is intended that the net proceeds from the Warrants subscription of approximately HK$409,000 will be applied as general working capital of the Group. The Group considers that the issuance of Warrants represents an opportunity to raise additional funds for the Company while broadening the shareholders and capital base of the Company. It is intended that the net proceeds from the exercise of Warrants will be approximately HK$100 million, of which approximately HK$69 million will be applied as capital expenditure for its coal energy business, approximately HK$22 million will be applied for repayment of the Group's borrowings and the remaining balance of approximately HK$9 million will be applied as general working capital of the Group.

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

The Group entered into 3 top-up placing agreements in respect of the top-up placing with a placing agent during the Year. The details are set out as below:

Pursuant to the Company's announcement dated 22 October 2009, the Company entered into the first top-up placing agreement with a placing agent to place 100,000,000 new ordinary shares of the Company at placing price of HK$0.281 per share to not less than six places, which are independent investors on 22 October 2009. The net subscription price (after deducted the placing expenses of approximately HK$1 million) is approximately HK$0.27 per share. The net proceeds of approximately HK$27 million will be used as follow: (i) approximately HK$16 million for repayment of the Group's borrowings; (ii) approximately HK$3 million as capital expenditure for the Group's coal energy business and (iii) approximately HK$8 million as general working capital of the Group.

Pursuant to the Company's announcement dated 9 November 2009, the Company entered into the second top-up placing agreement with a placing agent to place 100,000,000 new ordinary shares of the Company at placing price of HK$0.36 per share to not less than six places, which are independent investors on 9 November 2009. The net subscription price (after deducted the placing expenses of approximately HK$1 million) is approximately HK$0.35 per share. The net proceeds of approximately HK$35 million will be used as follow: (i) approximately HK$24 million for repayment of the Group's borrowings; (ii) approximately HK$7 million as capital expenditure for the Group's coal energy business and (iii) approximately HK$4 million as general working capital of the Group.

Pursuant to the Company's announcement dated 11 December 2009, the Company entered into the third top-up placing agreement with a placing agent to place 100,000,000 new ordinary shares of the Company at placing price of HK$0.415 per share to not less than six places, which are independent investors on 11 December 2009. The net subscription price (after deducted the placing expenses of approximately HK$1.1 million) is approximately HK$0.404 per share. The net proceeds of approximately HK$40.4 million will be used as follow: (i) approximately HK$6 million for repayment of the Group's borrowings and (ii) approximately HK$34.4 million as capital expenditure for the Group's coal energy business and as general working capital of the Group.

Alteration of terms of convertible notes and issue of new convertible notes

On 28 March 2008, the convertible notes of nominal value of HK$254,065,000 ("CN1") were issued as part of the consideration for an acquisition of the entire equity interest of Lucky Dragon Resources Limited and its subsidiaries. Pursuant to the terms of CN1, CN1 are non-interest bearing and the holders are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HK$0.70 each, subject to adjustments, at any time between the date of issue of CN1 and 28 March 2010. Any CN1 not converted before 28 March 2010 will be redeemed at 100 per cent of its principal amount on 28 March 2010.

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

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

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

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

(iv) any remaining CN1 not converted by maturity date will be redeemed at 100% of its outstanding principal amount. The management has designated the entire Altered CN1 as financial liabilities at fair value through profit or loss.

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

The details of the alteration of terms of convertible notes and issue of new convertible notes are set out in the company's announcement and circular dated 5 October 2009 and 20 October 2009, respectively.

In addition, the details of the financial impact of the alteration of terms of convertible notes and issue of new convertible notes are set out in note 28 to the Group's consolidated financial statements.

Correction of Prior Period Errors

The details of correction of prior period errors are set out in note 4 to the consolidated financial statements.

Employment, Training and Development

As at 31 December 2009, the Group had a total of 735 employees (2008: 837 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a periodical basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the provision of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have compiled with the Model Code during the year ended 31 December 2009.

AUDIT COMMITTEE

The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control system and provide advice and comments to the Board. The audit committee members have reviewed the Company's consolidated financial statements for the year ended 31 December 2009 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with management and the Company's external auditors.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement and related notes thereto for the year ended 31 December 2009 as set out in the preliminary announcement have been agreed by the Group's auditor, RSM Nelson Wheeler, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Nelson Wheeler in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Nelson Wheeler on the preliminary announcement.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The Directors would like to draw your attention to the fact that the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2009 contains the following basis for disclaimer of opinion.

Basis for disclaimer of opinion

(a) The directors of the Company make retrospective restatements ("Restatements") in relation to the Group's acquisitions of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited in 2007 and 2008 respectively. The details of the Restatements are set out in note 3 to the consolidated financial statements. According to the Restatements, at 1 January 2009, the carrying amount of goodwill was decreased by approximately HK$658,405,000, the carrying amount of exploration and evaluation assets was increased by approximately HK$658,405,000, the carrying amount of deferred tax liabilities was increased by approximately HK$164,601,000, the carrying amount of foreign currency translation reserve was increased by approximately HK$42,859,000 and the carrying amount of accumulated losses was increased by approximately HK$207,460,000. We were not provided with sufficient evidence to satisfy ourselves as to the then fair value of the exploration and evaluation assets as at the dates of acquisitions of Inner Mongolia Mingrunfeng Energy Co., Ltd. and Tongliao City Heng Yuan Mining Company Limited in 2007 and 2008 respectively. Accordingly, we are unable to satisfy ourselves as to the appropriateness of the Restatements.

In view of the above, we are unable to satisfy ourselves as to the carrying amounts of the following figures stated in the consolidated statement of financial position as at 31 December 2009:

– goodwill of HK$Nil;
– exploration and evaluation assets of approximately HK$711,889,000;
– deferred tax liabilities of approximately HK$168,301,000;
– foreign currency translation reserve of approximately HK$53,273,000; and
– accumulated losses of approximately HK$388,228,000.

As a result of the Restatements, the correspondence figures for the year ended 31 December 2008 were restated. We are unable to satisfy ourselves whether the following restated figures stated in the consolidated statement of financial position as at 31 December 2008 were fairly stated:

– goodwill of HK$Nil;
– exploration and evaluation assets of approximately HK$711,889,000;
– deferred tax liabilities of approximately HK$168,521,000;
– foreign currency translation reserve of approximately HK$53,130,000; and
– accumulated losses of approximately HK$323,641,000.

In addition, we are unable to satisfy ourselves whether the following restated figures stated in the consolidated income statement for the year ended 31 December 2008 were fairly stated:

– impairment loss on exploration and evaluation assets of approximately HK$473,383,000;
– impairment loss on goodwill of approximately HK$20,266,000; and
– deferred tax credit of approximately HK$151,012,000.

(b) As set out in notes 16 and 17 to the consolidated financial statements, the directors assessed the carrying amount of exploration and evaluation assets of approximately HK$711,889,000 based on the recoverable amounts of Guerbanhada Coal Mine and Bayanhushuo Coal Field which are estimated as the higher amount of fair value less costs to sell and value in use. We have not been provided with sufficient evidence to satisfy ourselves as to the fair value less costs to sell and value in use of the relevant cash generating units. We are unable to satisfy ourselves whether the carrying amount of exploration and evaluation assets of approximately HK$711,889,000 was fairly stated as at 31 December 2009.

There are no other satisfactory audit procedures that we could adopt to determine whether the above figures were fairly stated in the consolidated financial statements. Any adjustments to the above figures might have significant consequential effect on the results for the year ended 31 December 2008 and 2009 and net assets as at 31 December 2008 and 2009.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the states of the affairs of the Company and the Group as at 31 December 2009 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PUBLICATION OF RESULTS

This announcement of results has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kiuhung.com). The annual report of the Company for the year ended 31 December 2009 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

By order of the Board
Kiu Hung Energy Holdings Limited
Yu Won Kong, Dennis
Chief Executive Officer and Executive Director

Hong Kong, 29 April 2010

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