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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 2011

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 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Turnover	4	184,550	186,095
Cost of sales		<u>(146,208)</u>	<u>(146,642)</u>
Gross profit		38,342	39,453
Other income	4	2,511	6,676
Selling and distribution costs		(24,508)	(23,584)
Administrative expenses		(61,419)	(61,463)
Other gains, net	7	<u>9,569</u>	<u>52,291</u>
Operating (loss)/profit		(35,505)	13,373
Finance costs	5	(3,575)	(7,104)
Share of profit of a jointly controlled entity		<u>48</u>	<u>46</u>
(Loss)/profit before income tax		(39,032)	6,315
Income tax expense	6	<u>(1,155)</u>	<u>(1,344)</u>
(Loss)/profit for the year	7	<u>(40,187)</u>	<u>4,971</u>
(Loss)/profit attributable to:			
– equity holders of the Company		(40,539)	6,313
– non-controlling interests		<u>352</u>	<u>(1,342)</u>
		<u>(40,187)</u>	<u>4,971</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share attributable to the equity holders of the Company	8		
– basic		<u>(0.71)</u>	<u>0.13</u>
– diluted		<u>(0.90)</u>	<u>(0.78)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
(Loss)/profit for the year	<u>(40,187)</u>	<u>4,971</u>
Other comprehensive income:		
Exchange difference arising from translation of foreign operations	30,629	17,834
Surplus on revaluation of properties	4,894	15,907
Deferred tax arising on revaluation of properties	<u>(662)</u>	<u>(2,861)</u>
Other comprehensive income for the year, net of tax	<u>34,861</u>	<u>30,880</u>
Total comprehensive (loss)/income for the year	<u><u>(5,326)</u></u>	<u><u>35,851</u></u>
Total comprehensive (loss)/income attributable to:		
– equity holders of the Company	(5,678)	37,193
– non-controlling interests	<u>352</u>	<u>(1,342)</u>
	<u><u>(5,326)</u></u>	<u><u>35,851</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		100,015	85,584
Prepaid land lease payments		4,752	4,639
Investment properties		9,358	8,500
Exploration and evaluation assets	<i>10</i>	788,075	750,843
Mining right		–	–
Other intangible asset		1,093	1,105
Interest in a jointly controlled entity		–	1,423
Deferred tax assets		–	280
		903,293	852,374
Current assets			
Inventories		26,119	18,287
Trade receivables	<i>11</i>	18,093	13,977
Prepayments, deposits and other receivables		14,945	10,190
Due from a jointly controlled entity		–	6,509
Tax recoverable		973	116
Financial assets at fair value through profit or loss		–	–
Bank and cash balances		13,002	49,699
		73,132	98,778
Total assets		976,425	951,152
Current liabilities			
Trade payables	<i>12</i>	20,689	17,893
Accruals and other payables		23,407	20,015
Tax payable		398	1,275
Borrowings		63,405	38,300
		107,899	77,483
Net current (liabilities)/assets		(34,767)	21,295
Total assets less current liabilities		868,526	873,669

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current liabilities		
Financial liabilities at fair value through profit or loss	–	245,285
Deferred tax liabilities	<u>187,059</u>	<u>177,550</u>
	<u>187,059</u>	<u>422,835</u>
Net assets	<u>681,467</u>	<u>450,834</u>
Equity		
Share capital	115,386	100,289
Reserves	<u>563,997</u>	<u>350,254</u>
Equity attributable to equity holders of the Company	679,383	450,543
Non-controlling interests	<u>2,084</u>	<u>291</u>
Total equity	<u>681,467</u>	<u>450,834</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to equity holders of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Contributed surplus HK\$'000	Foreign currency translation reserve HK\$'000	Share-based payment reserve HK\$'000	Property revaluation reserve HK\$'000	Non-listed warrants reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2010	88,546	560,507	1,905	303	53,273	5,113	7,976	409	(521,545)	196,487	1,633	198,120
Total comprehensive income/(loss) for the year	-	-	-	-	17,834	-	13,046	-	6,313	37,193	(1,342)	35,851
Transaction with equity holders												
Issue of shares upon exercise of share options	79	599	-	-	-	(279)	-	-	-	399	-	399
Conversion of convertible notes to ordinary shares	8,064	141,120	-	-	-	-	-	-	-	149,184	-	149,184
Issue of shares on placements	3,600	55,828	-	-	-	-	-	-	-	59,428	-	59,428
Release on forfeiture of non-listed warrants	-	-	-	-	-	-	-	(409)	409	-	-	-
Release on forfeiture of share options	-	-	-	-	-	(218)	-	-	218	-	-	-
Recognition of share-based payment	-	-	-	-	-	7,852	-	-	-	7,852	-	7,852
Transfer to reserve	-	-	1,286	-	-	-	-	-	(1,286)	-	-	-
Total transactions with equity holders	<u>11,743</u>	<u>197,547</u>	<u>1,286</u>	<u>-</u>	<u>-</u>	<u>7,355</u>	<u>-</u>	<u>(409)</u>	<u>(659)</u>	<u>216,863</u>	<u>-</u>	<u>216,863</u>
At 31 December 2010	<u>100,289</u>	<u>758,054</u>	<u>3,191</u>	<u>303</u>	<u>71,107</u>	<u>12,468</u>	<u>21,022</u>	<u>-</u>	<u>(515,891)</u>	<u>450,543</u>	<u>291</u>	<u>450,834</u>

	Attributable to equity holders of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Contributed surplus HK\$'000	Foreign currency translation reserve HK\$'000	Share-based payment reserve HK\$'000	Property revaluation reserve HK\$'000	Non-listed warrants reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2011	100,289	758,054	3,191	303	71,107	12,468	21,022	-	(515,891)	450,543	291	450,834
Total comprehensive (loss)/income for the year	-	-	-	-	30,629	-	4,232	-	(40,539)	(5,678)	352	(5,326)
Transaction with equity holders												
Issue of shares upon exercise of share options	3	23	-	-	-	(11)	-	-	-	15	-	15
Conversion of convertible notes to ordinary shares	15,094	218,870	-	-	-	-	-	-	-	233,964	-	233,964
Release on forfeiture of share options	-	-	-	-	-	(694)	-	-	694	-	-	-
Recognition of share-based payment	-	-	-	-	-	539	-	-	-	539	-	539
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	1,441	1,441
Total transactions with equity holders	<u>15,097</u>	<u>218,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(166)</u>	<u>-</u>	<u>-</u>	<u>694</u>	<u>234,518</u>	<u>1,441</u>	<u>235,959</u>
At 31 December 2011	<u>115,386</u>	<u>976,947</u>	<u>3,191</u>	<u>303</u>	<u>101,736</u>	<u>12,302</u>	<u>25,254</u>	<u>-</u>	<u>(555,736)</u>	<u>679,383</u>	<u>2,084</u>	<u>681,467</u>

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 20/F., Hong Kong Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

These financial statements are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 28 March 2012.

2. BASIS OF PREPARATION

These financial statements 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, investment properties 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 HKFRS 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

Going Concern

At 31 December 2011, the Group's current liabilities exceeded its current assets by approximately HK\$34,767,000 and the Group recorded a loss for the year of approximately HK\$40,187,000 and had a net operating cash outflow of approximately HK\$47,886,000 during the year ended 31 December 2011. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

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

- 1) Subsequent to the balance sheet date on 1 February 2012, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK\$0.06 per share to not less than six independent investors. The net proceeds (after deducting the placing expenses) of the top-up placing amounted to approximately HK\$11.6 million;
- 2) Subsequent to the balance sheet date on 15 March 2012, the Group obtained a new short term borrowings of approximately HK\$5,000,000;
- 3) Subsequent to the balance sheet date on 16 March 2012, the Company extended its borrowings of HK\$5,500,000, which would be due in July to September 2012, to 15 March 2013. Among the extended borrowings, HK\$2,000,000 is secured by the personal guarantee from a director of the Company;
- 4) The Group is in negotiation with financial institutions to obtain new borrowings and to extend existing borrowings upon their due dates;
- 5) The Group is in negotiation with its creditors to extend payment due dates; and
- 6) 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.

In addition, the construction plan of Huanghuashan Coal Mine ("HCM") is anticipated to be completed by the end of the second quarter of 2012. HCM will commence production again and is expected to bring operating cash inflows to the Group in the third quarter of 2012.

The directors 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 2011. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards and interpretations adopted by the Group

- (i) The following amendments to standards are mandatory for accounting periods beginning on 1 January 2011. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group:

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 January 2011
HKAS 24 (Revised)	Related party transactions	1 January 2011
HKAS 27 (Amendment)	Consolidated and separate financial statements	1 July 2010
HKAS 34 (Amendment)	Interim financial reporting	1 January 2011
HKFRS 3 (Amendment)	Business combinations	1 July 2010

- (ii) The following amendments to standards and interpretations are mandatory for accounting periods beginning on 1 January 2011 but are not relevant to the Group's operations:

		Effective for accounting period beginning on or after
HKFRS 1 (Amendment)	First time adoption of Hong Kong Financial Reporting Standards	1 January 2011
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKFRS 7 (Amendment)	Financial instruments: Disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of rights issues	1 February 2010
HK (IFRIC) – Int 13 (Amendment)	Customer loyalty programmes	1 January 2011
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC) – Int 19 (Amendment)	Extinguishing financial liabilities with equity instruments	1 July 2010

(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2011 and have not been early adopted:

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKAS 27 (revised 2011)	Separate financial statements	1 January 2013
HKAS 28 (revised 2011)	Associates and joint ventures	1 January 2013
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013

The Group is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

4. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of goods	<u>184,550</u>	<u>186,095</u>
Other income		
Fair value gain on investment properties	453	4,671
Gain on disposal of moulds	178	585
Interest income	29	26
Rental income	723	205
Others	<u>1,128</u>	<u>1,189</u>
	<u>2,511</u>	<u>6,676</u>

Segment information

The Group has two reportable segments as follows:

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

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

Segment results do not include fair value gain on financial liabilities at fair value through profit or loss, corporate finance costs and other corporate income and expenses. Segment assets do not include property, plant and equipment, bank and cash balances and prepayments, deposits and other receivables at corporate level. Segment liabilities do not include financial liabilities at fair value through profit or loss, borrowings, and accruals and other payables at corporate level.

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

	Exploration and mining		Toys and gift items		Total	
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December						
Revenue from						
external customers	–	11,126	184,550	174,969	184,550	186,095
Segment results	(11,663)	(20,185)	(18,737)	(5,100)	(30,400)	(25,285)
Depreciation and amortisation	(1,036)	(2,343)	(6,014)	(8,458)	(7,050)	(10,801)
Interest income	20	17	8	2	28	19
Interest expenses	(652)	(5,509)	(2,668)	(1,472)	(3,320)	(6,981)
Share of profit of a jointly controlled entity	–	–	48	46	48	46
Income tax expense	–	–	(1,155)	(1,344)	(1,155)	(1,344)
Write-back of impairment on amount due from a jointly controlled entity	<u>–</u>	<u>–</u>	<u>1,697</u>	<u>160</u>	<u>1,697</u>	<u>160</u>
At 31 December						
Segment assets	831,165	795,704	143,157	133,905	974,322	929,609
Segment liabilities	<u>(188,523)</u>	<u>(178,996)</u>	<u>(92,562)</u>	<u>(70,068)</u>	<u>(281,085)</u>	<u>(249,064)</u>
Interest in a jointly controlled entity	–	–	–	1,423	–	1,423
Additions to segment non-current assets	<u>9,826</u>	<u>18,598</u>	<u>4,292</u>	<u>10,978</u>	<u>14,118</u>	<u>29,576</u>

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Reconciliation of segment results:		
Total loss of reportable segments	(30,400)	(25,285)
Unallocated amount:		
Fair value gain on financial liabilities at fair value through profit or loss	11,321	51,331
Corporate finance costs	(254)	(123)
Other corporate income and expenses	(20,854)	(20,952)
	<u>(40,187)</u>	<u>4,971</u>
Reconciliation of segment assets:		
Total assets of reportable segments	974,322	929,609
Unallocated corporate assets		
Property, plant and equipment	271	679
Bank and cash balances	1,157	20,372
Prepayments, deposits and other receivables	675	492
	<u>2,103</u>	<u>21,543</u>
Total assets	<u>976,425</u>	<u>951,152</u>
Reconciliation of segment liabilities:		
Total liabilities of reportable segments	281,085	249,064
Unallocated corporate liabilities		
Financial liabilities at fair value through profit or loss	–	245,285
Borrowings	5,500	–
Accruals and other payables	8,373	5,969
	<u>13,873</u>	<u>251,254</u>
Total liabilities	<u>294,958</u>	<u>500,318</u>

(c) Geographical information:

	Revenue	
	2011	2010
	HK\$'000	HK\$'000
The PRC (including Hong Kong)	2,557	13,326
North America ¹	147,307	146,468
European Union ²	25,309	19,753
Others ³	9,377	6,548
	<u>184,550</u>	<u>186,095</u>

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

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

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

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

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

(d) Analysis of revenue by category:

	2011	2010
	HK\$'000	HK\$'000
Sales of toys and gifts items	184,550	174,969
Sales of coal	—	11,126
	<u>184,550</u>	<u>186,095</u>

5. FINANCE COSTS

	2011	2010
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loans wholly repayable within 5 years	2,378	1,472
Other loans wholly repayable within 5 years	1,103	5,509
Trust receipt loans	94	123
	<u>3,575</u>	<u>7,104</u>

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax		
Provision for the year	187	269
Over-provision for prior years	<u> -</u>	<u> (24)</u>
	<u> 187</u>	<u> 245</u>
The PRC		
Provision for the year	<u> 1,097</u>	<u> 713</u>
The USA		
Over-provision for prior years	<u> (559)</u>	<u> -</u>
Total current tax	<u> 725</u>	<u> 958</u>
Deferred tax	<u> 430</u>	<u> 386</u>
Income tax expense	<u> 1,155</u>	<u> 1,344</u>

7. (LOSS)/PROFIT FOR THE YEAR

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Amortisation of other intangible assets	12	12
Auditor's remuneration	2,000	2,800
Write-back of provision for impairment of amount due from a jointly controlled entity*	(1,697)	(160)
Provision for impairment of trade receivables	81	60
Provision for impairment of other receivables*	1,550	–
Cost of inventories sold (<i>note (a)</i>)	146,208	146,642
Depreciation of property, plant and equipment	7,330	10,915
Amortisation of prepaid land lease payments	114	145
Fair value loss on financial assets at fair value through profit or loss*	–	286
Fair value gain on financial liabilities at fair value through profit or loss*	(11,321)	(51,331)
Write-off and loss on disposals of property, plant and equipment*	988	3,269
Minimum lease payments under operating leases in respect of leasehold land and buildings	5,078	3,635
Net foreign exchange loss/(gain)*	913	(2,752)
Research and development expenditure (<i>note (b)</i>)	820	926
Provision for inventories obsolescence	195	449
Staff costs (excluding directors' remuneration) (<i>note (c)</i>)		
Salaries, bonus and allowance	40,247	25,991
Retirement benefits scheme contributions	2,173	2,257
Share-based payment expenses	127	698
	42,547	28,946

* *Included in other gains, net*

Note:

- (a) Cost of inventories sold included approximately HK\$16,073,000 (2010: HK\$10,573,000), HK\$3,169,000 (2010: HK\$9,032,000), HK\$820,000 (2010: HK\$926,000) and HK\$195,000 (2010: HK\$449,000) relating to staff costs, depreciation, research and development expenditure and provision for inventory obsolescence respectively, which are included in the respective amounts disclosed separately above for each of these types of expenses for the year.
- (b) Research and development expenditure included approximately HK\$715,000 (2010: HK\$667,000) relating to staff costs which are also included in the total amount of staff costs disclosed separately above for the year.
- (c) Staff cost included approximately HK\$4,027,000 (2010: nil) relating to salaries, which are capitalised in "property, plant and equipment" in the consolidated statement of financial position.

8. (LOSS)/EARNINGS PER SHARE

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

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

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
(Loss)/profit attributable to the equity holders of the Company		
(Loss)/profit for the purpose of calculating basic (loss)/earnings per share	(40,539)	6,313
Less: fair value gain on financial liabilities at fair value through profit or loss	<u>(11,321)</u>	<u>(51,331)</u>
Adjusted loss for the purpose of calculating diluted loss per share	<u>(51,860)</u>	<u>(45,018)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	5,717,546,742	4,789,103,515
Effect of dilutive potential ordinary shares arising from outstanding share options and financial liabilities at fair value through profit or loss	<u>51,698,448</u>	<u>975,955,974</u>
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	<u>5,769,245,190</u>	<u>5,765,059,489</u>

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

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

9. FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2011 (2010: Nil).

10. EXPLORATION AND EVALUATION ASSETS

	Group <i>HK\$'000</i>
Cost	
At 1 January 2010	1,250,250
Additions	14,234
Exchange difference	43,131
	<hr/>
At 31 December 2010	1,307,615
Exchange difference	64,841
	<hr/>
At 31 December 2011	1,372,456
	<hr style="border-top: 1px dashed black;"/>
Accumulated impairment loss	
At 1 January 2010	538,361
Exchange difference	18,411
	<hr/>
At 31 December 2010	556,772
Exchange difference	27,609
	<hr/>
At 31 December 2011	584,381
	<hr style="border-top: 1px dashed black;"/>
Carrying amount	
At 31 December 2011	788,075
	<hr style="border-top: 3px double black;"/>
At 31 December 2010	750,843
	<hr style="border-top: 3px double black;"/>

The exploration and evaluation assets are attributable to Guerbanhada Coal Mine (“GCM”) and Bayanhushuo Coal Field (“BCF”). At 31 December 2011, the carrying amount is attributable to GCM of approximately HK\$249,801,000 (2010: HK\$238,000,000) and BCF of approximately HK\$538,274,000 (2010: HK\$512,843,000).

The master planning (總體規劃) of GCM has been agreed by the Development and Reform Commission of Inner Mongolia Autonomous Region (內蒙古自治區發展和改革委員會) and has been submitted to 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) for their approvals during 2010. The licence period of the exploration right of GCM is from 23 September 2011 to 22 September 2013. In order to expedite the application process of the mining licence of GCM, the Group

has been closely following up the application in its best endeavour. Based on the assessment made by the Directors, the Company's management is very confident and determines to obtain the approvals for the master planning of GCM from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC successfully.

The Group has been in the process to obtain for the approval of the master planning of BCF. The exploration right certificate in BCF had an initial exploration period from 5 July 2008 to 4 July 2010 and was subsequently renewed to 4 July 2012, and subject to further renewal.

The carrying values of the exploration and evaluation assets were tested for impairment as at 31 December 2011. The results of the tests undertaken as at 31 December 2011 indicated no impairment charge was necessary.

11. TRADE RECEIVABLES

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	18,174	14,037
Less: provision	<u>(81)</u>	<u>(60)</u>
Trade receivables, net	<u>18,093</u>	<u>13,977</u>

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

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

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	13,914	11,470
31 days to 90 days	2,305	2,201
91 days to 180 days	1,789	232
181 days to 360 days	83	47
Over 360 days	<u>2</u>	<u>27</u>
	<u>18,093</u>	<u>13,977</u>

12. TRADE PAYABLES

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

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	7,362	7,198
31 days to 90 days	7,372	7,008
91 days to 180 days	4,920	2,675
181 days to 360 days	715	842
Over 360 days	320	170
	<u>20,689</u>	<u>17,893</u>

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2010: Nil).

14. CAPITAL COMMITMENTS

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

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	<u>808</u>	<u>–</u>

15. EVENTS AFTER THE REPORTING PERIOD

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, 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 Profits Limited 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 and its net proceeds (after deducting the placing expenses), amounted to approximately HK\$11,632,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

During the financial year ended 31 December 2011 (the “Year”), the Group recorded a turnover of approximately HK\$184.6 million (2010: HK\$186.1 million), representing a decrease of approximately 0.8% as compared to the previous year. The Group’s loss attributable to shareholders for the Year was approximately HK\$40.5 million (2010: profit attributable to shareholders HK\$6.3 million). Basic loss per share for the Year was 0.71 HK cents (2010: Basic earnings per share 0.13 HK cents).

The increase in the Group’s loss was mainly attributable to (i) a decrease in gain arising on change in fair value of the Company’s financial liabilities at fair value through profit or loss amounting to approximately HK\$40.0 million and (ii) an increase in loss of the toys and gifts business of the Group of HK\$13.6 million as a result of the increase in the price of raw materials, salaries, rent and utilities during the Year.

Dividend

The Board does not recommend the payment of any dividend for the Year (2010: Nil).

Business and Operational Review

Segmental Information Analysis

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

Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business was approximately HK\$184.6 million (2010: HK\$175.0 million), representing an increase of approximately 5.5% as compared to the previous year. The turnover from the toys and gifts business remained stable during the Year.

The gross profit ratio of the toys and gifts business was 20.8% for the Year (2010: 23.6%). The decrease in gross profit ratio is mainly due to the increase in the price of raw materials, salaries, rent and utilities during the Year.

Exploration and mining of natural resources

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

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

* *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) during the Year. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.*

HCM commenced production in December 2009. During the Year, HCM had been under construction to further upgrade its mining structure in order to boost its production capacity. As such, there was no revenue contributed from HCM during the Year (2010: HK\$11.1 million). The construction plan is anticipated to complete by the end of the second quarter of 2012 and HCM will commence production again in the third quarter of 2012. HCM is located in Tongliao City of Inner Mongolia Autonomous Region ("Inner Mongolia"), the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by SRK Consulting China Ltd. ("SRK China") on 31 January 2008, HCM has an estimated coal resources of approximately 7.85 million tonnes of semi-anthracite coal. There is no material change in the amount of the estimated coal resources of HCM as at the date of this announcement.

During the Year, the government of Tongliao City of Inner Mongolia announced a proposal to merge the coal mines located in Tongliao City, in which HCM is located. However, the details of the proposed merger have not yet been released by the government of Tongliao City and there is no material impact on the operation of HCM up to the date of this announcement.

GCM is located in Xilinguolemeng of Inner Mongolia, the PRC and is close to highways and railways. Pursuant to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting") on 30 March 2007, GCM has an estimated coal resources of approximately 106 million tonnes of high quality thermal coal and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal coal market. There is no material change in the estimated coal resources of GCM as at the date of this announcement.

The master planning (總體規劃) of GCM has been agreed by the Development and Reform Commission of Inner Mongolia (內蒙古自治區發展和改革委員會) and has been submitted to 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) for their approvals during 2010. The licence period of the exploration right of GCM was from 22 September 2009 to 22 September 2011 and was subsequently renewed to another period from 23 September 2011 to 22 September 2013. The Directors have been closely following up the application in its best endeavour and are very confident and determines to obtain the approvals for the master planning of GCM from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC successfully.

BCF is located in Xilinguolemeng of Inner Mongolia, the PRC. Pursuant to an independent technical assessment report issued by SRK China on 31 January 2008, BCF has an estimated coal resources of approximately 394.05 million tonnes of high quality thermal coal. Currently, the Group is compiling the master planning (總體規劃) of BCF and expects to submit the master planning to the Development and Reform Commission of Inner Mongolia in late 2012 or early 2013. 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) during the Year. The resources report was prepared by Inner Mongolia Long Wang Geographic Exploration Co. Ltd. (內蒙古龍旺地質勘探有限責任公司), which indicates BCF has an estimated coal resources of approximately 384.69 million tonnes under the Chinese resources standard promulgated by the Ministry of Land and Resources of the PRC.

The licence period of the exploration right of BCF is from 19 June 2010 to 4 July 2012 and is subject to renewal.

Geographical Information

During the Year, revenue in the North America (includes the USA and Canada) is amounting to approximately HK\$147.3 million compared to approximately HK\$146.5 million last year and represented 79.8% of the Group's total revenue. Revenue in the European Union (includes Spain, Italy, France and the United Kingdom) recorded an increase of approximately 27.8% from approximately HK\$19.8 million last year to approximately HK\$25.3 million for the Year which represented 13.7% of the Group's total revenue.

Other Income

Other income for the Year decreased by approximately 62.7% to approximately HK\$2.5 million as compared to approximately HK\$6.7 million in the previous year. The decrease was mainly due to a decrease in fair value gain on investment properties of approximately HK\$4.2 million during the Year.

Selling and Distribution Costs

Selling and distribution expenses for the Year increased by approximately 3.8% to approximately HK\$24.5 million as compared to approximately HK\$23.6 million in the previous year. There was no material change in the selling and distribution costs for the Year as compared to the previous year.

Administrative Expenses

The amount of administrative expenses for the Year is comparable to previous year.

Other Gains, Net

Other gains, net for the Year decreased by approximately 81.6% to approximately HK\$9.6 million as compared to approximately HK\$52.3 million in the previous year. The decrease was mainly due to a decrease in the gain arising on change in fair value of the Company's financial liabilities at fair value through profit or loss of approximately HK\$40.0 million.

Finance Costs

Finance costs for the Year decreased by approximately 49.3% to approximately HK\$3.6 million as compared to approximately HK\$7.1 million in the previous year. The decrease in finance costs was mainly due to the decrease in interest expenses on other loans of approximately HK\$4.4 million.

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\$13.0 million at 31 December 2011 (2010: HK\$49.7 million). The Group's cash and bank balances were mostly held in Hong Kong dollars and Renminbi.

At 31 December 2011, the Group's borrowings amounted to approximately HK\$63.4 million (2010: HK\$38.3 million). The Group's borrowings were mainly denominated in Hong Kong dollars and Renminbi, of which approximately 69.0% (2010: 63.6%) bore interest at fixed lending rates.

The Group did not have any financial liabilities at fair value through profit or loss at 31 December 2011 (2010: HK\$245.3 million). The decrease was due to the conversion of the Company's convertible notes, being designated and disclosed as "financial liabilities at fair value through profit or loss" in the consolidated statement of financial position, of approximately HK\$245.3 million into 754,721,872 new ordinary shares of the Company during the Year.

The gearing ratio of the Group calculated as the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity was approximately 13.9% at 31 December 2011 (2010: 6.2%).

Net current liabilities of the Group at 31 December 2011 was approximately HK\$34.8 million (2010: Net current assets: HK\$21.3 million) and the current ratio of the Group was approximately -32.2% (2010: 27.5%).

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 2011, certain property, plant and equipment, prepaid land lease payments, investment properties, mining right and trade receivables held by the Group with aggregate carrying value of approximately HK\$86.9 million (2010: 55.7 million), were pledged to secure general banking facilities granted to the Group.

At 31 December 2011, the Group had capital commitments, representing capital expenditure contracted for property, plant and equipment of the Group, of approximately HK\$0.8 million (2010: Nil).

At 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

Termination of a very substantial acquisition in eight coal mines in the Guizhou Province

On 8 July 2010 (as supplemented by the first and second supplemental agreements dated 20 August 2010 and 22 December 2010), the Group has entered into a conditional contract to acquire eight coal mines in the Guizhou Province of the PRC (the "Mines") at a total consideration for not more than HK\$8,889,110,000 (the "Acquisition"). A technical adviser (the "Technical Adviser") has been appointed by the Group as the competent person to prepare the technical reports (the "Technical Reports") on the estimated coal resources of the Mines. Subsequently, the Group was informed by the Technical Adviser that additional exploration work and time are required to prepare the Technical Reports and there was no definite schedule as to when additional exploration work could be done. The Group and the vendor considered that it would not be in common interests to proceed with the Acquisition and therefore entered into a termination agreement to terminate the Acquisition on 31 May 2011. Please refer to the Company's announcement dated 31 May 2011 for the details.

Business Prospects and Future Plans for Material Investments

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

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

In 2012, the Group will focus on the continuous development of our coal energy business. As the Group has an aggregate amount of existing coal resources of approximately 507.9 million tonnes, we will be able to tap the energy and natural resources business with high growth potential in order to maximise our shareholders' value. With the committed efforts of the dedicated management and staff, we are confident and optimistic on the business prospects of the Group.

Capital Structure

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

During the Year, 754,877,872 new ordinary shares have been issued by the Company (2010: 587,120,000 shares) as a result of issuing (i) 754,721,872 new ordinary shares upon the conversion of the Company's convertible notes (2010: 403,200,000 shares); and (ii) 156,000 new ordinary shares upon the exercise of share options by the option holders (2010: 3,920,000 shares).

At 31 December 2011, 136,042,600 share options remained outstanding (2010: 142,198,600 share options).

The Group considers that it is beneficial to the Company and the shareholders as a whole to raise capital for the future business development of the Group by way of placing new shares as it will broaden the capital and shareholder base of the Company thereby increasing the liquidity of the shares. Subsequent to the balance sheet date, the Company entered into a placing and subscription agreement with a placing agent to place 200,000,000 new ordinary shares of the Company at the placing price of HK\$0.06 per share to not less than six independent investors on 1 February 2012. The net subscription price (after deducting the placing expenses) is approximately HK\$0.058 per share. The net proceeds of approximately HK\$11.6 million would be used as the general working capital of the Group. The subscription of new ordinary shares of the Company was completed and the Company's issued ordinary shares have been increased from 5,769,304,672 ordinary shares to 5,969,304,672 ordinary shares on 13 February 2012. Please refer to the Company's announcement dated 1 February 2012 for the details.

Employment, Training and Development

At 31 December 2011, the Group had a total of 785 employees (2010: 709 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.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2011. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT OPINION

The auditor of the Group will issue an opinion with emphasis of matter on the consolidated financial statements of the Group for the year under audit. An extract of the auditor's report is set out in the section headed "**EXTRACT OF THE AUDITOR'S REPORT**" below.

EXTRACT OF THE 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 2011, 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\$40,187,000 and had a net operating cash outflow of approximately HK\$47,886,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$34,767,000. 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 short-term borrowings upon their maturities, raise capital from existing and new investors, and derive adequate operating cash flows from its operations. These conditions, along with other matters as described in note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

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 2011.

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 2011.

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 complied with the Model Code during the year ended 31 December 2011.

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 2011 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with management and the Company’s external auditors.

PUBLICATION OF RESULTS

This announcement of results has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.381energy.com). The annual report of the Company for the year ended 31 December 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

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

Hong Kong, 28 March 2012

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. Jin Peihuang.