KH ENERGY

KIU HUNG ENERGY HOLDINGS LIMITED
僑雄能源控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Note	**2012** ***HK$'000***	2011 *HK$'000* (Restated)
Continuing operations			
Turnover	*4*	**192,803**	184,550
Cost of sales		**(133,285)**	(146,208)
Gross profit		**59,518**	38,342
Other income	*4*	**1,881**	1,889
Selling and distribution costs		**(24,404)**	(24,508)
Administrative expenses		**(60,467)**	(54,761)
Other (losses)/gains, net	*7*	**(600,808)**	9,847
Operating loss		**(624,280)**	(29,191)
Finance costs	*5*	**(5,154)**	(3,174)
Share of profit of a jointly controlled entity		**–**	48
Loss before income tax		**(629,434)**	(32,317)
Income tax credit/(expense)	*6*	**149,945**	(1,155)
Loss for the year from continuing operations	*7*	**(479,489)**	(33,472)
Discontinued operation			
Loss for the year from discontinued operation		**(25,447)**	(6,715)
Loss for the year		**(504,936)**	(40,187)

	Note	2012 *HK$'000*	2011 *HK$'000* (Restated)
(Loss)/profit attributable to:			
Equity holders of the Company		**(508,859)**	(40,539)
Non-controlling interests		**3,923**	352
		(504,936)	(40,187)
Loss attributable to equity holders of the Company arises from:			
Continuing operations		**(483,412)**	(33,824)
Discontinued operation		**(25,447)**	(6,715)
		(508,859)	(40,539)
		HK cents	*HK cents* (Restated)
Loss per share from continuing and discontinued operations attributable to the equity holders of the Company	*8*		
Basic loss per share			
From continuing operations		**(40.65)**	(2.96)
From discontinued operation		**(2.14)**	(0.59)
From loss for the year		**(42.79)**	(3.55)
Diluted loss per share			
From continuing operations		**(40.65)**	(3.91)
From discontinued operation		**(2.14)**	(0.58)
From loss for the year		**(42.79)**	(4.49)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**71,994**	100,015
Prepaid land lease payments		**4,635**	4,752
Investment properties		**9,850**	9,358
Exploration and evaluation assets	*10*	**180,904**	788,075
Mining right		**–**	–
Other intangible asset		**1,082**	1,093
Deferred tax assets		**411**	–
		268,876	903,293
Current assets			
Inventories		**18,831**	26,119
Trade receivables	*11*	**17,049**	18,093
Prepayments, deposits and other receivables		**10,407**	14,945
Tax recoverable		**118**	973
Bank and cash balances		**23,418**	13,002
		69,823	73,132
Assets classified as held for sale		**38,234**	–
		108,057	73,132
Total assets		**376,933**	976,425
Current liabilities			
Trade payables	*12*	**9,978**	20,689
Accruals and other payables		**71,889**	23,407
Tax payable		**379**	398
Borrowings		**56,705**	63,405
		138,951	107,899
Net current liabilities		**(30,894)**	(34,767)
Total assets less current liabilities		**237,982**	868,526

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to equity holders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Statutory surplus *HK$'000*	Contributed surplus *HK$'000*	Foreign currency translation reserve *HK$'000*	Share-based payment reserve *HK$'000*	Property revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interest *HK$'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	15,097	218,893	–	–	–	(166)	–	694	234,518	1,441	235,959
At 31 December 2011	115,386	976,947	3,191	303	101,736	12,302	25,254	(555,736)	679,383	2,084	681,467
At 1 January 2012	**115,386**	**976,947**	**3,191**	**303**	**101,736**	**12,302**	**25,254**	**(555,736)**	**679,383**	**2,084**	**681,467**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**–**	**(2,601)**	**–**	**10,728**	**(508,859)**	**(500,732)**	**3,923**	**(496,809)**
Transaction with equity holders											
Issue of shares on placement	**4,000**	**8,000**	**–**	**–**	**–**	**–**	**–**	**–**	**12,000**	**–**	**12,000**
Release on expiry/forfeiture of share options	**–**	**–**	**–**	**–**	**–**	**(9,086)**	**–**	**9,086**	**–**	**–**	**–**
Recognition of share-based payment	**–**	**–**	**–**	**–**	**–**	**4,354**	**–**	**–**	**4,354**	**–**	**4,354**
Transfer to reserve	**–**	**–**	**129**	**–**	**–**	**–**	**–**	**(129)**	**–**	**–**	**–**
Total transactions with equity holders	**4,000**	**8,000**	**129**	**–**	**–**	**(4,732)**	**–**	**8,957**	**16,354**	**–**	**16,354**
At 31 December 2012	**119,386**	**984,947**	**3,320**	**303**	**99,135**	**7,570**	**35,982**	**(1,055,638)**	**195,005**	**6,007**	**201,012**

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 2013.

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 and investment properties which are carried at their fair values.

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

Going Concern

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

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

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

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and interpretations not yet adopted

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

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

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

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

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

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

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

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

4. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

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

Segment information

The Group has two reportable segments as follows:

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

The Group's reportable segments are strategic business units in its continuing operations that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Segment results exclude those from discontinued operation.

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

Segment results do not include fair value gain on financial liabilities at fair value through profit or loss, corporate finance costs and other corporate income and expenses. Segment assets do not include property, plant and equipment, bank and cash balances and prepayments, deposits and other receivables at corporate level, and assets classified as held for sale. Segment liabilities do not include 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**	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)				(Restated)
Year ended 31 December						
Revenue from external customers	**–**	–	**192,803**	184,550	**192,803**	184,550
Segment results	**(454,116)**	(4,948)	**(1,427)**	(18,737)	**(455,543)**	(23,685)
Depreciation and amortisation	**(222)**	(226)	**(6,467)**	(6,014)	**(6,689)**	(6,240)
Provision for impairment of exploration and evaluation assets	**(603,888)**	–	**–**	–	**(603,888)**	–
Interest income	**1**	1	**1**	8	**2**	9
Interest expenses	**–**	(252)	**(3,531)**	(2,668)	**(3,531)**	(2,920)
Share of profit of a jointly controlled entity	**–**	–	**–**	48	**–**	48
Income tax credit/(expense)	**150,972**	–	**(1,027)**	(1,155)	**149,945**	(1,155)
Write-back of impairment on amount due from a jointly controlled entity	**–**	–	**–**	1,697	**–**	1,697
At 31 December						
Segment assets	**189,704**	831,165	**148,263**	143,157	**337,967**	974,322
Segment liabilities	**(65,983)**	(188,523)	**(85,466)**	(92,562)	**(151,449)**	(281,085)
Additions to segment non-current assets	**–**	9,826	**1,137**	4,292	**1,137**	14,118

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

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

(c) Geographical information:

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

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

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

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

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

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

(d) Analysis of revenue by category:

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

5. FINANCE COSTS

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

6. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxations on overseas profits have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

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

7. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Amortisation of other intangible asset	**11**	12
Auditor's remuneration	**2,000**	2,000
Write-back of provision for impairment of amount due from a jointly controlled entity[1]	**–**	(1,697)
(Write-back of provision)/provision for impairment of trade receivables	**(81)**	81
Provision for impairment of other receivables[1]	**–**	1,550
Provision for impairment of exploration and evaluation assets[1] *(note 10)*	**603,888**	–
Cost of inventories sold *(note (a))*	**133,285**	146,208
Forfeiture of deposit[1]	**(1,227)**	–
Depreciation of property, plant and equipment	**6,832**	6,520
Amortisation of prepaid land lease payments	**116**	114
Fair value gain on financial liabilities at fair value through profit or loss[1]	**–**	(11,321)
Write-off and loss on disposals of property, plant and equipment[1]	**71**	700
Minimum lease payments under operating leases in respect of leasehold land and buildings	**5,447**	5,075
Net foreign exchange (gain)/loss[1]	**(1,924)**	923
Research and development expenditure	**596**	820
(Write-back of provision)/provision for inventories obsolescence	**(338)**	195
Staff costs (excluding directors' remuneration)		
Salaries, bonus and allowance	**33,685**	35,295
Retirement benefits scheme contributions	**1,381**	1,491
Share-based payment expenses	**1,158**	127
	36,224	36,913

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

Notes:

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

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

8. LOSS PER SHARE

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

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

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

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

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

The calculations of basic loss per share and diluted loss per share have taken into account the effect of share consolidation, which became effective after the end of the reporting period ended 31 December 2012 but before these consolidated financial statements were authorised for issue, retrospectively. Accordingly, the calculations of weighted average numbers of ordinary shares for the purpose of calculating basic loss per share and diluted loss per share were on the basis that every five issued and unissued shares of HK$0.02 each in the share capital of the Company be consolidated into one consolidated share of HK$0.1 each (note 16(a)).

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

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

9. FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2012 (2011: Nil) .

10. EXPLORATION AND EVALUATION ASSETS

	Group
	HK$'000
Cost	
At 1 January 2011	1,307,615
Exchange difference	64,841
At 31 December 2011	1,372,456
Exchange difference	(112)
At 31 December 2012	1,372,344
Accumulated impairment loss	
At 1 January 2011	556,772
Exchange difference	27,609
At 31 December 2011	584,381
Impairment loss *(note 7)*	603,888
Exchange difference	3,171
At 31 December 2012	1,191,440
Carrying amount	
At 31 December 2012	180,904
At 31 December 2011	788,075

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

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

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

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

The recoverable amounts of the exploration and evaluation assets were significantly lower than their carrying values, and accordingly, an impairment loss of approximately HK$603,888,000 has been charged in "other (losses)/gains, net" for the year ended 31 December 2012 (2011: HK$Nil).

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

11. TRADE RECEIVABLES

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

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

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

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

12. TRADE PAYABLES

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

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

13. CONTINGENT LIABILITIES

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

14. CAPITAL COMMITMENTS

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

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

15. COMPARATIVE INFORMATION

During the year, the Group entered into an agreement to sell the assets of HCM to an independent third party. The assets of HCM have been presented as "assets classified as held for sale" in the consolidated statement of financial position at the reporting date. The comparative figures in the consolidated statement of financial position have not been restated. The post-tax loss of the discontinued operation, which represented the results of HCM, has been presented in a single amount in the consolidated income statement. The comparatives figures in the consolidated income statement and the consolidated statement of comprehensive income have been restated to be consistent.

16. EVENTS AFTER THE REPORTING PERIOD

(a) Share consolidation

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

Results of the EGM

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

Adjustments in relation to share options

As a result of the Share Consolidation, adjustments were made to the exercise price of and the number of the outstanding share options (the "Adjustments") under the share option scheme adopted by the Company on 28 May 2002 (the "Share Option Scheme") in accordance with (i) Rule 17.03(13) of the Listing Rules; (ii) the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules (the "Supplementary Guidance"); and (iii) the Share Option Scheme in the following manner with effect from 8 February 2013 as a result of the Share Consolidation:

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

Effects of the Share Consolidation

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

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

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

(b) 2013 MOU

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

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

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

Dividend

The Board does not recommend the payment of any dividend for the Year (2011: Nil).

Business and Operational Review

Segmental Information Analysis

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

Manufacturing and trading of toys and gifts items

Turnover from toys and gifts business was approximately HK$192.8million (2011: approximately HK$184.6 million), representing an increase of approximately 4.4% as compared to the previous year. The turnover from the toys and gifts business remained stable during the Year.

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

Exploration and mining of natural resources

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

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

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

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

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

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

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

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

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

Geographical Information

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

Other Income

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

Selling and Distribution Costs

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

Administrative Expenses

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

Other (Losses)/Gains, Net

Other losses, net for the Year is approximately HK$600.8 million (2011: other gains, net of approximately HK$9.8 million). The significant increase of other losses, net was mainly due to the significant impairment loss in respect of the exploration and evaluation assets of GCM and BCF of approximately HK$603.9 million recorded during the Year (2011: Nil) . The carrying values of the exploration and evaluation assets of GCM and BCF were tested for impairment as at 31 December 2012. The recoverable amounts of the exploration and evaluation assets of GCM and BCF, which were estimated by an independent firm of professional valuer, of which the estimates, assumptions and judgements relating to the impairment tests are in note 10 of this announcement, were significantly lower than their carrying values, and accordingly, an impairment loss of approximately HK$603.9 million has been charged for the Year. The impairment loss was made mainly due to (i) the slower than originally expected progress in getting the approval on the master planning (總體規劃) of GCM and BCF from the National Development and Reform Commission of the PRC and the National Energy Commission of the PRC; (ii) the expectation that it may take longer time to get the approval from the governments of Inner Mongolia and the PRC in applying the mining licences in the future as a result of the release of the Consultation Paper; and (iii) the decrease in coal price in the PRC during the Year. The impairment loss has no impact on cash flow during the Year.

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

Finance Costs

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

Income Tax Credit/(Expense)

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

Discontinued Operation

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

Liquidity and Financial Resources

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

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

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

The gearing ratio of the Group calculated as the Group's net debts (comprising trade payables, accruals and other payables, tax payable, borrowings less bank and cash balances) over its total equity was approximately 57.5% at 31 December 2012 (2011: approximately 13.9%).

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

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

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

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

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

Business Prospects and Future Plans for Material Investments

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

On 4 December 2012, Inner Mongolia Mingrunfeng Energy Co., Ltd. (內蒙古銘潤峰能源有限公司) ("Mingrunfeng"), an indirectly wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding ("MOU") with Xilinguolemeng Wulagai River Mineral Company Limited (錫林郭勒盟烏拉蓋河礦業有限公司), an independent third party (the "Purchaser"), in relation to the possible disposal of the exploration right of GCM at a consideration of RMB50,000,000 (equivalent to approximately HK$62,500,000) ("Possible Disposal"). Please refer to the Company's announcement dated 4 December 2012 for the details of MOU. As at the date of this announcement, no legally binding agreement has been entered into and the parties to the MOU have decided not to proceed with the Possible Disposal and renegotiated on the structure of the Possible Disposal in the form of an equity transfer. Accordingly, the parties to the MOU have mutually agreed to terminate the MOU with effect from 28 March 2013 upon which each of the parties to the MOU is released from the MOU.

On 28 March 2013, Bright Asset Investments Limited, First Choice Resources Limited, Jumplex Investments Limited and Wise House Limited, (collectively the "Vendors"), all of which being indirectly wholly-owned subsidiaries of the Company, entered into a non-legally binding memorandum of understanding ("2013 MOU") with the Purchaser in relation to the possible sale ("Possible Sale") by the Vendors of the entire equity interest in Mingrunfeng

(“Sale Interest”) to the Purchaser at a consideration of RMB50,000,000 (equivalent to approximately HK$62,500,000). As at the date of this announcement, Mingrunfeng is the holder of the exploration right of GCM, which is the principal asset of Mingrunfeng.

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

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

Capital Structure

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

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

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

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

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

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

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

The Share Consolidation became effective on 8 February 2013.

Employment, Training and Development

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

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

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

Emphasis of matter

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

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 2012.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 "Corporate Governance Code and Corporate Governance Report" to the Listing Rules during the year ended 31 December 2012.

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 "Model Code for Securities Transactions by Directors of Listed Issuers" 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 2012.

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 2012 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 2012 containing all the information required by Appendix 16 "Disclosure of Financial Information" 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 2013

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