KAISUN ENERGY GROUP LIMITED
凱順能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8203

* For identification purpose only

Annual Report December 2010

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This report, for which the directors (the "Directors") of Kaisun Energy Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

Board of Directors

Executive Directors

Mr. Chan Nap Kee, Joseph *(Chairman and acting Chief Executive Officer)*
Dr. Chow Pok Yu, Augustine
Mr. Yang Yongcheng
Mr. Li Hong (Appointed on 3 September 2010)
Mr. Yeap Soon P, Jonathan *(Chief Executive Officer)* (Resigned on 2 November 2010)
Mr. Yang Geyan (Resigned on 16 August 2010)

Independent Non-Executive Directors

Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

Company Secretary

Mr. Leung Lit For
Ms. Young Helen (Appointed on 7 October 2010)

Audit Committee

Mr. Liew Swee Yean *(Committee Chairman)*
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

Remuneration Committee

Dr. Wong Yun Kuen *(Committee Chairman)*
Mr. Chan Nap Kee, Joseph
Dr. Chow Pok Yu, Augustine
Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Mr. Anderson Brian Ralph

Authorised Representatives

Mr. Chan Nap Kee, Joseph
Mr. Leung Lit For

Auditors

RSM Nelson Wheeler

Compliance Officer

Dr. Chow Pok Yu, Augustine

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

5/F., 31C–D Wyndham Street
Central, Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Wing Hang Bank Limited
China Merchants Bank
China Construction Bank
Bank of China
Bank of Agriculture
Ordos City Commercial Bank

Website

www.kaisunenergy.com

Stock Code

8203

Financial Summary

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years/period is set out as below:

Results

	Period ended 31 December	Year ended 31 March			
	2010	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**59,619**	62,806	51,087	304,630	299,298
(Loss)/profit before tax	**(24,784)**	449,624	8,785	70,635	15,943
Income tax expense	**(3,454)**	(941)	(23)	(531)	(69)
Less: (Profit)/loss attributable to non-controlling interests	**(3,597)**	4,010	(53)	(993)	—
(Loss)/profit attributable to owners of the Company	**(31,835)**	452,693	8,709	69,111	15,874

Assets and Liabilities

	As at 31 December	As at 31 March			
	2010	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,870,185**	3,764,298	1,040,403	152,005	143,168
Total liabilities	**(1,383,419)**	(1,390,922)	(721,207)	(11,691)	(87,551)
Owners' funds	**1,730,415**	1,642,401	279,489	127,962	55,617

Highlights

- Turnover of the Group for the nine months period ended 31 December 2010 (the "Period") from continuing and discontinued operations amounted to approximately HK$59.6 million (for the year ended 31 March 2010: HK$62.8 million). Compared to last year, the significant increase in turnover in continuing operations represents mainly the increase in turnover generated from the sale of coal.

- The Group recorded total comprehensive income for the Period of approximately HK$44.4 million (for the year ended 31 March 2010: HK$453.6 million). During the Period, the Group recorded exchange differences on translating foreign operations of approximately HK$72.6 million (for the year ended 31 March 2010: HK$4.9 million), which offset the loss for the Period of approximately HK$28.2 million (profit for the year ended 31 March 2010: HK$448.7 million).

- Excluding the non-recurrent item of HK$750 million on completion of the acquisition of the 21% equity interests in Inner Mongolia Mengxi Minerals Limited which contributed to the significant increase in last year profit, the Group recorded a significant reduction in non-recurrent loss this Period when compared to last year. This improvement is mainly attributable to increase in production and sale of coal in the current reporting period and the decrease of finance costs comprising (i) last year fair value loss on derivative component of convertible bonds of HK$207 million was an one off item and (ii) interest on convertible bonds decreased by HK$13.5 million this period.

- Loss per share of the Group for the Period from continuing and discontinued operations amounted to approximately HK cent 1.52 (for the year ended 31 March 2010: earnings per share HK cents 29.94)

Chairman's Statement

Results

On behalf of the Board of Kaisun Energy Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present the audited consolidated results for the nine months period ended 31 December 2010 (the "Period"). The Group's consolidated turnover for the Period was amounting HK$59.6 million and total comprehensive income for the Period attributable to owner of the Company was amounting HK$44.4 million.

This annual report covers nine months' operations from 1 April 2010 to 31 December 2010. All historical comparative figures for items in consolidated income statement and consolidated statement of comprehensive income are stated for the year ended 31 March 2010 and all historical comparative figures for items in consolidated statement of financial position are stated at 31 March 2010.

Business Review

To align the financial year end date of the Company's principal operating subsidiary, which mainly situated in the People's Republic of China, and thereby facilitating the preparation of the consolidated financial statements of the Company and its subsidiaries, the financial year end date of the Company has been changed from 31 March to 31 December on 9 November 2010. Hence, the current reporting period is a 9 month period from 1 April 2010 to 31 December 2010.

During the reporting period, the Group generated its turnover from the sale of coking coal and thermal coal from Inner Mongolia, amounting to approximately HK$59.6 million for the nine months ended 31 December 2010, an improvement over the approximately HK$21.4 million for the six months ended 30 September 2010. In April, the Group's open pit operation was interrupted because of a government imposed cessation on coal mining and related construction activities in Inner Mongolia caused by the flooding incident in the Lou Tou Mountain Coal Mine (駱駝山煤礦). The Group's progress on the underground mine construction was similarly affected. To compensate for the loss of construction time, the Group had advanced the purchase of coal excavators for leasing to construction contractors for accelerating the progress of tunneling work. In August, extraction of coal was temporarily stopped because of the 12th Inner Mongolia Autonomous Region Games. After this, production and construction activities had resumed to the normal level.

Completion of disposal of Long Capital

On 30 June 2010, the Group disposed of its remaining 14.57% interest in Long Capital Development Limited ("Long Capital"), details of which were discussed in the Company's announcement dated 30 June 2010. As the Group's business strategy is to reposition itself as an integrated coke producer in the PRC, after the disposal of its remaining 14.57% interest in Long Capital, the Group was no longer involved in the business of providing beauty and repairs services to motor vehicles. From 1 July 2010 onwards, coal becomes the sole business operation of the Group.

Chairman's Statement

Merger of Mengxi Minerals and Mengxi Chemical, Dissolution of Mengxi Chemical

On 10 August 2010, Mengxi Minerals*(note 1)* (as purchaser) and Mengxi Chemical*(note 2)* (as vendor), each an indirect 70% subsidiary of the Company, entered into the Agreement for a group restructuring exercise involving the merger of Mengxi Minerals and Mengxi Chemical ("Merger") by the transfer of all assets, liabilities, businesses and employees of Mengxi Chemical to Mengxi Minerals at nil consideration ("Transfer"). Mengxi Chemical shall be dissolved upon completion of the Merger.

The principal business of Mengxi Chemical was the washing and choosing of mine run coal, the processing of coking coal and coke and their related coal by-products. The principal business of Mengxi Minerals is the sale of coal, the building of early stage infrastructure for exploitation of sagger, washing and choosing of mine run coal and processing of coke.

Each of Mengxi Minerals and Mengxi Chemical is a joint venture vehicle which is 70% indirectly owned by the Company and 30% by Mengxi HT*(note 3)*. As Mengxi Minerals and Mengxi Chemical have the same shareholding structure, the Board considered that the Merger would enable the Group to streamline the corporate structure to facilitate integration of resources and unify the platform for sales of coal and washing and choosing of mine run coal by the Group. Cost savings for the Group can be achieved accordingly.

The acquisition and disposal of the assets, liabilities, businesses and employees of Mengxi Chemical under the Transfer were part and parcel of the entire group restructuring exercise. Since all assets, liabilities, businesses and employees of Mengxi Chemical were transferred to Mengxi Minerals at nil consideration, no gain or loss to the Group resulted from the Merger.

The transfer of all assets, liabilities, businesses and employees of Mengxi Chemical to Mengxi Minerals under the Merger was completed on 25 August 2010. Mengxi Chemical was dissolved on 12 September 2010 upon completion of the necessary filings and obtaining of the relevant approvals in the PRC.

note:

1. Mengxi Minerals: 內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Co., Ltd.)

2. Mengxi Chemical: 鄂爾多斯市啟杰蒙西煤化有限公司 (Ordos GEM Coal & Chemical Co., Ltd.)

3. Mengxi HT: 內蒙古蒙西高新技術集團有限公司 (Inner Mongolia Gaoxing High Tech Limited).

Chairman's Statement

Mengxi Minerals completed construction of Office Building and Staff Quarters

During the reporting period, Mengxi Minerals had attained a milestone on completion of the construction of its Office Building and Staff Quarters. On 13 October 2010, a ceremony celebrating the completion of construction of the Office Building and Staff Quarters of Mengxi Minerals was held. As a respected company in Inner Mongolia, over 100 attendees comprising important local officials from Inner Mongolia Government Departments and business partners attended this ceremony.

The successful completion of construction of these two buildings reflected that Mengxi Minerals is proceeding well on its implementation of constructing the planned infrastructure. This in turn reflects Kaisun Energy's successful effort to steer our controlling subsidiary into a producing operation.

Office Completion Ceremony of Mengxi Minerals

Business Outlook

Construction of the Group's 1.5 mtpa beneficiation plant is progressing and is targeted for completion in 2011.

The Group's coking coal mine, located in the district of Qian Li Gou (千里溝) in Ordos, 35 kilometers from Wuhai, Inner Mongolia. Wuhai is one of the main areas that produces coking coal and coke in Inner Mongolia, with approximately 20 million tonnes of annual raw coking coal production. The Group's mine is one of the thirteen mines in the district. The majority of these mines are not in production because they cannot meet the current minimum 0.6 mtpa production quota in Ordos. The Group's coking coal mine, being the largest in the district and the only one owned by a listed company, is favorably supported by the local government and the Group is regarded as having the financial resources and technical capability to acquire and consolidate the other small coking coal mines in the district for commencing production in future.

Capital expenditures for the construction of the underground mine, which are anticipated to be around RMB480 million, are being satisfied by the Group's internal resources together with a RMB300 million loan provided by the China Construction Bank (the "Bank").

Chairman's Statement

Cooperation Agreement with Xinjiang Bureau

On 21 January 2011, the Company and Xinjiang Uygur Autonomous Region Coal Geology Bureau ("Xinjiang Coal Bureau") (新疆維吾爾自治區煤田地質局) entered into a 3 year strategic cooperation framework agreement (the "Cooperation Agreement") which enables the parties to develop a close and strategic cooperation relationship to explore the coal mining industry.

Office Building of Mengxi Minerals

Leveraging Kaisun's proven operating model and Xinjiang Bureau's expertise in exploration, the partnership will cooperatively explore and develop mining resources both in and outside China. Details of the Cooperation Agreement were disclosed in the Company's announcement dated 21 January 2011.

Increase of Coal Resource

In December 2010, geological drilling work was conducted by a team of mining consultants on mining areas. Based on their verification works of JORC standards of estimation and their exploration works, the Inner Mongolian Kulihuoshatu Coal Mine is estimated to have a total resource of approximately 130.85 million tonnes, an increase of approximately 32% from the previously estimated total resource of approximately 99.6 million tonnes (note: PRC coal resource standard).

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to our fellow directors, staff members, and business partners throughout the period. The Company's directors and management will dedicate their best efforts to strive for the best interests for its shareholders and business associates.

Chan Nap Kee, Joseph
Chairman

Hong Kong, 28 February 2011

Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with our financial statements together with the accompanying notes included in this annual report. The financial statements have been prepared in accordance with Hong Kong Financial Report Standards ("HKFRSs", each a "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the accounting principles generally accepted in Hong Kong.

Prospects

A coal industry outlook for the year 2011 published by an investment bank continues to be optimistic. Implementation of economic revitalization programs in China will provide the coal industry with a boost upwards from the emission reduction pressure which hampered the industry output during the second half of year 2010. Supply and demand are projected to be "balanced or tight" in China due to industrial growth and a "higher than expected increase in the market price of coal". A reliable indicator for the China market is Australian and Japanese coking coal which has been projected at USD225 per tonne in 2011.

The Group's strategy continues to be looking for other appropriate investment opportunities in the energy and resources sector. Announcement(s) will be published when appropriate.

Financial Review

Turnover of the Group for the Period from continuing operations and discontinued operations amounted to approximately HK$59.6 million and nil respectively (for the year ended 31 March 2010: continuing operations: HK$14.4 million, discontinued operations: HK$48.4 million). During the Period, the significant increase in turnover from continuing operations was generated by the sale of coal. The turnover of approximately HK$48.4 million from discontinued operations for the year ended 31 March 2010 mainly resulted from the business operation of providing beauty and repairs services to motor vehicles, which was completely disposed by the Group on 30 June 2010.

Staff Quarters of Mengxi Minerals

Gross profit from the Group's continuing and discontinued operations for the Period was approximately HK$28.9 million (for the year ended 31 March 2010: HK$45.7 million).

For the Period, the total administrative and other operating expenses from the Group's continuing operations totaled HK$38.1 million (for the year ended 31 March 2010: HK$51.2 million).

For the Period, total finance costs from the Group's continuing operations amounted to HK$16.2 million (for the year ended 31 March 2010: HK$236.8 million), finance costs for the Period represented an accrued interest payable on the Convertible Bonds upon the Bondholders redemption of Convertible Bonds.

The Group recorded loss for the Period of approximately HK$28.2 million (profit for the year ended 31 March 2010: HK$448.7 million). During the Period, exchange differences on translating foreign operations of approximately HK$72.6 million could offset the loss for the Period of approximately HK$28.2 million, hence the Group recorded total comprehensive income for the Period of approximately HK$44.4 million (for the year ended 31 March 2010: HK$453.6 million).

Management Discussion and Analysis

The total comprehensive income attributable to owners of the Company for the Period amounted to approximately HK$19.0 million (for the year ended 31 March 2010: HK$456.2 million).

Liquidity And Financial Resources

As at 31 December 2010, the Group has a bank and cash balance of approximately HK$242.4 million (as at 31 March 2010: HK$439.7 million).

In May 2009, Mengxi Minerals, a subsidiary company of the Group, secured a RMB300 million bank loan with an effective term of 89 months to provide partial funding to construct the underground mine and the beneficiation plant. The balance of capital expenditure requirement will be funded from cashflow generated from our open pit operation and internal resources of the Group. The loan was secured by the Mining License and 100% equity capital of Mengxi Minerals.

Final Dividend

In order to retain resources for the Group's business development, the Board does not recommend the payment of a final dividend for the Period (for the year ended 31 March 2010: HK$Nil).

Gearing Ratio

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.36 as at 31 December 2010 (as at 31 March 2010: 0.37).

Staff Canteen of Mengxi Minerals

Capital Structure

During the Period, the Company has received conversion notices from the Bondholders regarding the conversion of a principal amount of HK$72,870,000 of the Replacement Bonds into 106,900,000 new Shares. Upon completion of the conversion exercise during the Period, the outstanding principal of the Replacement Bonds amounted to HK$217,660,000 and a maximum of approximately 357,410,000 new Shares can be converted on the maturity date.

During the Period, the Company received exercise notices from the grantees regarding the exercise of share option of conversion into 1,808,750 new Shares.

Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi ("RMB"). As at 31 December 2010, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Management Discussion and Analysis

Income Tax

Details of the treatment of the Group's income tax expense for the Period are set out in note 9 to the Financial Statements.

Human Resources

As at 31 December 2010, the Group had 67 (as at 31 March 2010: 67) staff in Hong Kong and China. The Group continues to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees are also entitled to other fringe benefits such as provident fund. The management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality. During the Period, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

The total staff costs, including Directors' emoluments, amounted to approximately HK$7.3 million (for the year ended 31 March 2010: HK$54.8 million) for the Period.

Segment Report

The detailed segmental analysis are provided in note 38 to the Financial Statements.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2010.

Litigation

As at 31 December 2010, the Group had no significant pending litigation.

Biography of Directors and Senior Management

Executive Directors

Mr. Chan Nap Kee, Joseph, aged 50, is the chairman and acting chief executive officer of the Group. He was appointed as an executive director in September 2008. He received his master degree majoring in international marketing from the University of Strathclyde and a diploma in China Investment and Trade from Peking University.

Mr. Chan has close to twenty five years of experience in commercial and investment banking, and asset management. From 1994 to now, Mr. Chan has been a founding partner of Oriental Patron Financial Group where he is also an executive director of Oriental Patron Asia Limited and Oriental Patron Securities Limited. Oriental Patron Asia Limited is the investment manager of OP Financial Investments Limited (Stock Code: 1140), a company listed on the Main Board of the Stock Exchange. Mr. Chan is also a non-executive director of Hainan Meilan International Airport Company Limited (Stock Code: 357), a company listed on the Main Board of the Stock Exchange.

Mr. Chan was the deputy manager of Credit Agricole from 1986 to 1994, where he was in charge of the China business. From 1992 to 1994, he was also the co-head of Credit Agricole Asset Management South East Asia Limited.

He holds licenses respectively of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under the Securities and Futures Ordinance (cap. 571 of the Laws of Hong Kong).

No service contract has been entered into between the Company and Mr. Chan and there is no proposed length of service of Mr. Chan with the Company. He is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company ("the Articles"). He is not entitled to receive any director's fee from the Company.

Save as disclosed above, as at the date of this report, Mr. Chan did not have other major appointments and professional qualifications, did not hold any positions in the Group and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Save as disclosed above, Mr. Chan did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Mr. Chan was interested in 20,420,000 shares, representing approximately 0.97% of the issued share capital of the Company and share options of the Company with the right to subscribe for 4,925,000 Shares and 20,056,750 Shares at an exercise price of HK$0.394 each and HK$1.078 each respectively, representing approximately 0.23% and 0.95% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Mr. Chan did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Biography of Directors and Senior Management

Dr. Chow Pok Yu, Augustine, aged 58, was appointed as an executive director in November 2008. He is a director of Harmony Asset Limited (stock code: 0428), a publicly listed investment company specializing in China and Hong Kong and the shares of which are listed on the Stock Exchange. He is also a chairman of Harmony Asset Management Limited which is the investment manager of Harmony Asset Limited. Dr. Chow is a non-executive director of Jian ePayment Systems Limited (stock code: 8165), the shares of which are listed on the GEM. He is also a director and independent director of two overseas listed companies namely Celsion Corporation (AMEX: CLN) and Augyva Mining Resources Inc. (CDNX: AUV.V) respectively.

Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services, and specializes in mergers and acquisitions.

Dr. Chow holds professional memberships in the Institute of Marketing (HK), Institute of Financial Accountants (UK), and Hong Kong Securities Institute. He also holds an Honorary Fellowship from Bolton University. In addition, he serves on the Global Advisory Council of London Business School.

Dr. Chow holds a MSc from London Business School and PhD from University of South Australia. He also holds MPhil and Engineering Doctorate from City University of Hong Kong.

Save as disclosed above, as at the date of this report, Dr. Chow did not have other major appointments and professional qualifications, did not hold any positions in the Group and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

No service contract has been entered into between the Company and Dr. Chow and there is no proposed length of service of Dr. Chow with the Company. He is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. He is not entitled to receive any director's fee from the Company.

Save as disclosed above, Dr. Chow did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Dr. Chow was interested in 990,000 shares, representing approximately 0.05% of the issued share capital of the Company and share options of the Company with the right to subscribe for 4,925,000 Shares at an exercise price of HK$0.394 each, representing approximately 0.23% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Mr. Chow did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Yang Yongcheng, aged 42. He was appointed as an executive director in February 2009. He graduated from the Yikezhao League School of Finance (伊盟財經學校) in Inner Mongolia of the PRC and the China Central Radio & TV University, majoring in financial accounting. He is currently studying at the Zhongnan University of Economics and Law, majoring in EMBA.

Biography of Directors and Senior Management

Mr. Yang was appointed as the chief of the finance division of Inner Mongolia Hangjinqi Materials Company (內蒙古杭錦旗物資公司) in September 1989; a manager of Eqianqi Coke-oven Plant of Inner Mongolia Yimei Group (內蒙古伊煤集團鄂前旗焦化廠) in January 2001; a deputy general manager of Inner Mongolia Mengxi Building Materials Company (內蒙古蒙西建材公司) in July 2003; the chairman of Inner Mongolia Mengxi Kaolin Co., Ltd. in August 2005; and the chairman and general manager of Inner Mongolia Mengxi Coal Limited (內蒙古蒙西煤炭有限公司) in January 2008. He has been serving as a director of the joint venture Inner Mongolia Mengxi Minerals Co., Limited since the joint venture was established in September 2008.

Mr. Yang has been involved in senior positions for corporate management for a long period of time, has profound knowledge of the human and economic development environment in the Mengxi region of Inner Mongolia of the PRC, and possesses extensive experience in corporate investment, product and market development as well as operation of minerals enterprises.

No service contract has been entered into between the Company and Mr. Yang and there is no proposed length of service of Mr. Yang with the Company. He is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. He is not entitled to receive any director's fee from the Company.

Save as disclosed above, as at the date of this report, Mr. Yang did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Save as disclosed above, Mr. Yang did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Mr. Yang was interested in 100,000 Shares, representing approximately 0.01% of the issued share capital of the Company and share options of the Company with the right to subscribe for 4,925,000 Shares at an exercise price of HK$0.762 each, representing approximately 0.23% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Mr. Yang did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Li Hong, aged 47, was appointed as executive director and chief operating officer of the Company with effect from 3 September 2010. He joined the Group in July 2009 as the Vice Operation Director of China District of the Group, and took up the role of General Manager of Mengxi Minerals since October 2009. In order to raise effectiveness in site operation and administration, Mr. Li has been appointed as the director and chief executive officer of Mengxi Minerals effective from August 2010, and President of Mengxi Minerals effective from October 2010.

Mr. Li holds a graduate degree in economics of Guangdong Academy of Social Sciences of the People's Republic of China. He has over 20 years of solid experience in financial and administrative management of various industries and also over 5 years experience in the mining industry.

There is no service contract entered into between the Company and Mr. Li in respect of his appointment as the Executive Director and Chief Operating Officer. There is no proposed length of service with Mr. Li and he is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with

Biography of Directors and Senior Management

the articles of association of the Company ("Articles"). He will be entitled to an annual director fee of RMB350,000 (equivalent to approximately HK$409,500), which was determined by the remuneration committee of the Company with reference to his duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition.

Save as disclosed above, Mr. Li did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Mr. Li was interested in share options of the Company with the right to subscribe for 3,000,000 Shares at an exercise price of HK$1.184, representing approximately 0.14% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Mr. Li did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Independent Non-Executive Directors

Mr. Liew Swee Yean, aged 48, is the chairman of the audit committee and a member of the remuneration committee of the Board.

He is a director of Autism Recovery Network Limited, and the director of business development of eBroker Systems Limited. Mr. Liew was appointed as an independent non-executive director of Siberian Mining Group Company Limited (Stock Code: 1142) from December 2008.

Mr. Liew is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Liew holds a Master of Business Administration (Executive) Degree from the City University of Hong Kong.

Mr. Liew is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. Mr. Liew's director's fee is fixed at HK$25,000 per annum, which is commensurate with his duties and responsibilities as an independent non-executive director of the Company and the prevailing market situation and subject to Shareholders' approval. Save as disclosed above, Mr. Liew did not hold any position within the Group as at the Latest Practicable Date. Save as disclosed above, he did not have any relationships with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report.

Save as disclosed above, as at the date of this report, Mr. Liew did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Save as disclosed above, Mr. Liew did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Mr. Liew was interested in 540,000 shares, representing approximately 0.03% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Mr. Liew did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Biography of Directors and Senior Management

Mr. Siu Siu Ling, Robert, aged 59, He is a partner of the firm Messrs. Robert Siu & Co., Solicitors. Mr. Siu is an independent non-executive director of both Incutech Investments Limited (stock code: 356) and Finet Group Limited (stock code: 8317), all of which are listed on the Hong Kong Stock Exchange.

Mr. Siu holds a bachelor's degree in laws from the University of London and a postgraduate certificate in laws from the University of Hong Kong. He has been admitted as a solicitor in Hong Kong since 1992 and has been admitted as a solicitor in England and Wales since 1993. His main legal practice is in the field of commercial and corporate finance.

Mr. Siu is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. Mr. Siu's director's fee is fixed HK$25,000 per annum, which is commensurate with his duties and responsibilities as an independent non-executive director of the Company and the prevailing market situation and subject to shareholders' approval. Save as disclosed above, Mr. Siu did not hold any position within the Group as at the date of this report. Save as disclosed above, he did not have any relationships with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report.

Save as disclosed above, as at the date of this report, Mr. Siu did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Save as disclosed above, Mr. Siu did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Mr. Siu was interested in 540,000 shares, representing approximately 0.03% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Mr. Siu did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Dr. Wong Yun Kuen, aged 53, is the Chairman of Remuneration on Committee received two B.S. degrees in Geology and Mathematics from University of Wyoming, and Master and Ph.D. degree in Geophysics from Harvard University, and was "Distinguished Visiting Scholar" in finance at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. He is an Adjunct Professor of Syracuse University, USA, and a member of Hong Kong Securities Institute and a life member of American Geophysical Union.

He is an executive director of UBA Investments Limited, and the independent non-executive director of Bauhaus International (Holdings) Limited, China Grand Forestry Green Resources Group Limited, Climax International Company Limited, Golden Resorts Group Limited, Harmony Asset Limited, Hua Yi Copper Holdings Limited, Kong Sun Holdings Limited, China Yunnan Tin Minerals Group Company Limited, New Island Printing Holdings Limited and ZMAY Holdings Limited.

Biography of Directors and Senior Management

Dr. Wong is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. Mr. Wong's director's fee is fixed at HK$25,000 per annum, which is commensurate with his duties and responsibilities as an independent non-executive director of the Company and the prevailing market situation and subject to shareholders' approval. Save as disclosed above, Dr. Wong did not hold any position within the Group as at the date of this report. Save as disclosed above, he did not have any relationships with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report.

Save as disclosed above, as at the date of this report, Dr. Wong did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

As at the date of this report, Dr. Wong was interested in 1,000,000 Shares, representing approximately 0.05% of the issued share capital of the Company. Save as disclosed above, as at the date of this report, Dr. Wong did not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Anderson Brian Ralph, aged 68. He holds a Bachelor of Science Degree in Metaliferous Mining Engineering from the Camborne School of Mines, the University of Exeter and a Master of Science Degree in Petroleum Reservoir Engineering from the University of London.

Mr. Anderson has more than 45 years of global experience (of which 32 years with Shell International) in the mining and energy resources industries.

During his tenure as a Chairman of Royal Dutch/Shell Group of Companies ("Shell") in North East Asia, he was responsible for developing Shell's future business, in particular through the formation of important strategic alliances with two of the major state-owned Chinese petroleum corporations, which have since led to multi-billion dollar investment commitments in the petroleum and petrochemicals sectors in China, including important new business opportunities in coal gasification.

Mr. Anderson's China experience also includes a 6-year involvement with the prestigious China Council for International Co-operation on the Environment and Development and which includes Ministerial and Vice-Ministerial level appointees from within the PRC government, and top-level international members from government and global multilateral organization and businesses. He represented the Shell's group of companies as a council member for 4 years, and has participated as a member of two taskforces involved with energy and sustainable development policy for China.

Mr. Anderson is a founding member and a director of Acura Limited, an energy marketing and consulting firm, founding member and Chairman of CleanCoalGas Limited, a firm focusing on clean coal project development, both registered in Hong Kong, and is the chairman and managing director of Anderson Energy (Hong Kong) Limited, an energy consulting firm advising corporate clients globally.

Biography of Directors and Senior Management

Mr. Anderson is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. Mr. Anderson's director's fee is fixed at HK$25,000 per annum, which is commensurate with his duties and responsibilities as independent non-executive director, member of the audit committee and the remuneration committee of the Board and the prevailing market situation and subject to shareholders' approval. Save as disclosed, Mr. Anderson did not hold any position within the Group as at the date of this report. Save as disclosed, he did not have any relationships with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report.

Save as disclosed above, Mr. Anderson did not have any relationship with any directors, senior management, management shareholders or substantial or controlling shareholders of the Company as at the date of this report. As at the date of this report, Mr. Anderson was interested in share options of the Company with the right to subscribe for 1,200,000 Shares at an exercise price of HK$0.762 each, representing approximately 0.06% of the issued share capital of the company. Save as disclosed above, as at the date of the report, Mr. Anderson did not have any interest in the shares of the Company within the Meaning of Part XV of the SFO.

Senior Management

Mr. Yang Geyan, aged 42. Mr. Yang studied in the Shanghai Lixin Accounting Institute in 2001. Mr. Yang is also a holder of EMBA degree from Phoenix International University. He engaged in financial work in Shanghai Marine Transportation Bureau before 1995. He has been a director of Shanghai Hastings Investment Management Co., Ltd. and Shanghai Hastings Real Estate Development Co., Ltd. since 2000. He served as the Director of Inner Mongolia Mengxi Minerals Limited ("Mengxi Minerals"), a 70% indirectly owned subsidiary of the Company. He is also a director of Joy Harvest Holdings Limited, a wholly-owned subsidiary of the Company.

Mr. Hung Shui Chak, aged 42. Mr. Hung primarily engaged in the investment and the operation of automobile and catering businesses in Hong Kong prior to 1990. He turned to mainland China for investment and venturing in 1990, specializing in the mining of resources, automobile services and catering sectors. He served as the director of Inner Mongolia Mengxi Minerals Limited ("Mengxi Minerals"), a 70% indirectly owned subsidiary of the Company. He is also a director of Joy Harvest Holdings Limited, a wholly-owned subsidiary of the Company.

Mr. Leung Lit For, aged 42, joined the Group in June 2008. Mr. Leung is the Financial Controller and the Joint Company Secretary of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, United Kingdom. Mr. Leung has over 20 years of experience in auditing, corporate finance and merger and acquisition. He also holds various directorship of the subsidiaries of the Group.

Mr. Zhao Liang, aged 38, joined Mengxi Minerals as a Chief Engineer in October 2008. Mr. Zhao graduated from Xi'an Mining Institute, majoring in mining. He is a mining engineer, holding the qualification certificate of mine manager. He has served as the chief of safety and technical division and a director of dispatching office of Qipanjing mine in Inner Mongolia, the mine manager of Aerbasi Mine in Edos and a chief engineer of Mengxi Coal Limited. He had been involved in the construction of two mechanized mines. He has 15 years of working experience in coal mining and mine management.

Biography of Directors and Senior Management

Mr. Feng Qi, aged 38, joined Mengxi Minerals as a Chief Internal Auditor in October 2008. Mr. Feng graduated from Shanghai Lixin Accounting College, majoring in Accountancy. He is a Certified Public Accountant in the PRC and had served as an Auditing Manager of Ernst & Young Hua Ming of Shanghai, a Partner of Shanghai Changxin CPA Co., Ltd., and Partner of Shanghai Oukemeng CPA Co., Ltd. He has 14 years of working experience in auditing and consulting.

Mr. Han Wen Zhan, aged 53, he joined Mengxi Minerals as a Deputy General Manager in October 2008 and promoted to general manager on 16 August 2010. Mr. Han, aged 53, holds a certificate in Economics and Management from the Correspondence School of the Central Committee of the Communist Party. He is an Assistant to the Coal Quality Engineer as well as a Political Engineer in the PRC, holding the qualification certificate of mine manager. He has served as a mining leader, Chief of Coal Quality Division, and Deputy Manager of Laoshidan Mine of Mining Bureau of Haibo Bay, Inner Mongolia, the President of the Staff Union of Mengxi Cement Co. Ltd., and a Safety Manger and a Deputy General Manager of Mengxi Coal Limited. He has 30 years of working experience in coal mining and coal quality management.

Ms. Young Helen, aged 47, joined the Group in February 2010. Ms. Young is the Joint Company Secretary of the Group. Miss Young holds a Master of Business Administration Degree from the University of Hong Kong, and is an associate member of the Hong Kong Institute of Certified Public Accountants, fellow member of the Association of Chartered Certified Accountants, associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. She has served as the company secretary of a Hong Kong Stock Exchange listed company prior to joining the Group.

Report of the Directors

The board ("Board") of directors ("Directors") of the Company is pleased to submit its report together with the audited consolidated financial statements ("Financial Statements") of the Company and its subsidiaries (collectively as "the Group") for the period ended 31 December 2010.

Principal Activities and Segment Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 31 to the Financial Statements.

An analysis of the Group's performance for the period ended 31 December 2010 by segments is set out in note 38 to the Financial Statements.

Results and Appropriations

The results of the Group for the period ended 31 December 2010 are set out in the consolidated income statement on page 42–43.

The Directors do not recommend the payment of a dividend in respect of the period ended 31 December 2010.

Reserves

Movements in the reserves of the Group during the period ended 31 December 2010 are set out in the consolidated statement of comprehensive income and consolidated statement of changes in equity of the Group.

Donations

Charitable and other donations made by the Group during the period ended 31 December 2010 amounted to HK$Nil (for the year ended 31 March 2010: HK$Nil).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 16 to the Financial Statements.

Share Capital

Particulars of the share capital of the Company are set out in note 27 to the Financial Statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2010 amounted to HK$794,804,721 (as at 31 March 2010: HK$744,845,697). Under Section 34 of the Companies Law of the Cayman Islands, the reserves are available for distribution to shareholders subject to the provisions of the articles of association of the Company (the "Articles") and no distribution shall be paid to shareholders of the Company ("Shareholders") out of the reserves unless the Company shall be able to pay its debts as they fall due in the ordinary course of business of the Group.

Five Year Financial Summary

A summary of the published results and the assets and liabilities of the Group for each of the last five financial years is set out on page 4.

Report of the Directors

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of the shares of the Company ("Shares") during the Period under review. Neither the Company nor any of its subsidiaries has purchased or sold any Shares during the Period under review.

Pension Scheme

According to the legislation of Hong Kong relating to the Mandatory Provident Fund ("MPF"), with effect from 1 December 2000, the Group is required to participate in the MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contributions is limited to HK$1,000 for each eligible employee) as calculated under the MPF legislation.

Employees of the Group in the PRC participated in retirement benefit plans (社會保險基金) under which the Group is required to make monthly defined contributions to the plans at the rate of 20% of the employee's basic salary.

The detailed information of the Group's pension scheme are set out in note 15 to the Financial Statements.

Share Options

A share option scheme (the "Scheme") was adopted by the Shareholders by way of written resolutions passed on 9 December 2003. Details of the Scheme are as follows:

The principal purpose of the Scheme is to enable the Company to grant options to subscribe for Shares ("Options") to the following eligible persons as incentives or rewards for their contributions to the Group:

(1) any full time employee or director of any member of the Group;

(2) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which the Options are offered to such part time employee; or

(3) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The existing maximum number of Shares which may be issued upon the exercise of all Options to be granted under the Scheme and any other share option schemes of the Company is 200,567,500 Shares, being 37.14% of the Company's issued share capital as at the date on which the dealings in the Shares first commenced on the Stock Exchange and about 10% of the Company's issued share capital as at the date of this annual report.

Report of the Directors

The total number of Shares issued and to be issued upon exercise of the Options granted to a participant ("Participant") (including both exercised or outstanding Options), being any eligible person who accepted the offer of any Option, under the Scheme in any 12-month period must not exceed 1% of the Shares in issue from time to time unless prior approval is obtained from the independent Shareholders of the Company in a general meeting. If a grant of Options to a substantial Shareholder of the Company (as defined in the Rules ("GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) or an independent non-executive director of the Company or any of their respective associates (as defined in the GEM Listing Rules) will result in the total number of the Shares issued and to be issued upon exercise of the Options granted or to be granted (including both exercised and outstanding Options) to such person in any 12-month period up to and including the proposed dated of the grant exceeding 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the Shares at the proposed date of such each grant, in excess of HK$5 million, then the proposed grant of Options must be subject to Shareholders' approval in general meeting with all connected persons (as defined in the GEM Listing Rules) abstained from voting.

The Options may be exercised in accordance with the terms of the Scheme at any time during the option period. The Scheme does not require a minimum period for which the Options must be held or a performance target which must be achieved before any Option can be exercised. The Board shall be entitled at its absolute discretion to decide the option period subject to the Scheme, provided that it shall not exceed 10 years from the date on which the Option is deemed to be granted and accepted in accordance with the rules of the Scheme.

The Options will be offered for acceptance for a period of 28 days from the date on which the Options are offered to an eligible person. Upon acceptance of the Options, the eligible person shall pay HK$1 to the Company as consideration for the grant.

The subscription price for each Share subject to and upon the exercise of the Options will be a price determined by the Board and notified to each Participant and shall be at least the highest of (i) the closing price of each Share on GEM as stated in the daily quotations sheet of Stock Exchange on the date of grant of the Options, which must be a business day; (ii) the average closing price of each Share on GEM as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the Option; and (iii) the nominal value of one Share.

The Scheme will remain valid for a period of 10 years commenting from 9 December 2003.

On 18 October 2010, as approved by the Board of Directors, a total of 42,287,674 Options, have been granted to 2 consultants for a total of 42,287,674 Shares of the Company at an exercise price of HK$0.56 per Share. As at 31 December 2010, a total of 68,609,326 Shares, representing 12.71% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Since 1 April 2010 and up to the date of this report, the 1,808,750 Options have been exercise by the Participants. Due to the resignation of 1 employee of the Company and 2 employees of our subsidiary, 7,537,500 Options had lapsed during the period under review.

Report of the Directors

Details of the Options granted under the Scheme during the period ended 31 December 2010 are as follows:

	Date of Grant	Exercise Period	No. of Options: Outstanding as at 1/4/2010	Grant during the Period	Exercise during the Period	Lapsed during the Period (Note 4)	Reclassified (Note 1 & 2)	Outstanding as at 31/12/2010
Directors								
Wong Yun Kuen	19/2/2008	19/2/2008–18/2/2011	540,000	—	(540,000)	—	—	—
Yeap Soon P, Jonathan *(Note 1)*	24/6/2008	24/6/2008–23/6/2011	7,700,000	—	—	—	(7,700,000)	—
Chan Nap Kee, Joseph	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	—	4,925,000
	9/2/2010	9/2/2010–8/2/2013	20,056,750	—	—	—	—	20,056,750
Chow Pok Yu, Augustine	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	—	4,925,000
Yang Yongcheng	11/8/2009	11/8/2009–10/8/2012	4,925,000	—	—	—	—	4,925,000
Anderson Brian Ralph	11/8/2009	11/8/2009–10/8/2012	1,200,000	—	—	—	—	1,200,000
Li Hong *(Note 2)*	18/11/2009	18/11/2009–17/11/2012	—	—	—	—	3,000,000	3,000,000
		Sub-total	44,271,750	—	(540,000)	—	(4,700,000)	39,031,750
Employees in aggregate	24/6/2008	24/6/2008–23/6/2011	5,000,000	—	—	(5,000,000)	—	—
	11/8/2009	11/8/2009–10/8/2012	7,143,750	—	(1,268,750)	(2,537,500)	—	3,337,500
	18/11/2009	18/11/2009–17/11/2012	3,000,000	—	—	—	(3,000,000)	—
Other participants in aggregate	19/2/2008	19/2/2008–18/2/2011	500,000	—	—	—	—	500,000
	24/6/2008	24/6/2008–23/6/2011	—	—	—	—	7,000,000	7,000,000
	18/10/2010	18/10/2010–17/10/2013	—	42,287,674	—	—	—	42,287,674
			59,915,500	42,287,674	(1,808,750)	(7,537,500)	(700,000)	92,156,924

Note: (1) Mr. Yeap Soon P, Jonathan has been resigned as an executive director and redesignated as an other participants on 2 November 2010.

(2) Mr. Li Hong has been appointed as an executive director on 3 September 2010.

(3) These Options represent personal interest held by the relevant directors as beneficial owners.

(4) 7,537,500 Options lapsed during the year under review.

Report of the Directors

Directors

The Directors during the period and up to the date of this report were:

Executive Directors:

Mr. Chan Nap Kee, Joseph *(Chairman and Acting Chief Executive Officer)*	
Dr. Chow Pok Yu, Augustine	
Mr. Yang Yongcheng	
Mr. Li Hong	(Appointed on 3 September 2010)
Mr. Yeap Soon P. Jonathan *(Chief Executive Officer)*	(Resigned on 2 November 2010)
Mr. Yang Geyan	(Resigned on 16 August 2010)

Independent Non-Executive Directors

Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

According to Article 86 of the articles of association of the Company ("the Articles"), the directors shall have the power from time to time and at any time to appoint any person as a director to fill a casual vacancy on the Board or, as an addition to the existing Board provided that the number of directors so appointed by the Board shall not exceed any maximum number determined from time to time by the Shareholders in general meeting. Any director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the following annual general meeting of the Company ("AGM") (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

During the period, Mr. Li Hong will retire from office, and shall then be eligible for re-election at that meeting in accordance with Article 86 of the Articles.

According to Article 87 of the Articles, one-third of the directors for the time being (or, if the number of directors is not three (3) or a multiple of three (3), the number nearest to but not less than one-third), shall retire at each AGM by rotation, provided that every director shall be subject to retirement by rotation at least once every three (3) years. The retiring directors shall then be eligible for re-election at the AGM.

In accordance with Article 87 of the Articles, Dr. Chow Pok Yu Augustine, Mr. Yang Yongcheng and Mr. Anderson Brian Ralph will retire from offices by rotation at the forthcoming AGM, and being eligible, offer themselves for re-election at the forthcoming AGM.

The Company has received from each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers each of the independent non-executive directors to be independent.

Report of the Directors

Directors' Service Contracts

The term of office for each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being the independent non-executive directors, is for a term of one year and may be extended for such period as agreed in writing by the directors concerned and the Company. Currently, Mr. Liew Swee Yean has been appointed as an independent non-executive director up to 7 November 2011, Mr. Siu Siu Ling Robert has been appointed as an independent non-executive director up to 31 December 2011, Dr. Wong Yun Kuen has been appointed as an independent non-executive director up to 29 September 2011, while Mr. Anderson Brian Ralph has been appointed as an independent non-executive director up to 22 January 2012.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Details of the directors' emoluments are set out in note 12 to the Financial Statements.

Directors' Remuneration

It is proposed that the Board be authorised to fix the directors' remuneration at the forthcoming AGM. The remuneration, including any bonus payments, housing allowance and share options, to be paid to the directors, are recommended by the remuneration committee of the Board ("Remuneration Committee") with reference to the directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

There were no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director had a material interest, whether directly or indirectly, subsisting as at the end of the year or at any time during the year under review.

Continuing Connected Transactions

The independent non-executive directors have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Board confirms that the Company's auditors have confirmed the matters stated in Rule 20.38 of the GEM Listing Rules.

The Group no longer has continuing connected transactions which were required to be disclosed pursuant to Rules 20.45 and 20.46 of the GEM Listing Rules upon completion of the merger of Mengxi Chemical and Mengxi Mineral (the "Merger"):

The Supply Agreement Dated 1 February 2008

On 1 February 2008, Ordos GEM Coal & Chemical Co., Ltd. (鄂爾多斯市啟杰蒙西煤化有限公司) ("Mengxi Chemical"), a Sino-foreign equity joint venture established in the PRC and a 70%-owned indirect subsidiary of the Company, entered into a supply agreement ("Supply Agreement") with Inner Mongolia Mengxi Minerals Limited (內蒙古蒙西礦業有限公司) ("Mengxi Minerals"), a Sino-foreign equity joint venture established in the PRC, 49% equity interest

Report of the Directors

of which is indirectly owned by Company, in relation to the purchase by Mengxi Chemical from Mengxi Minerals of raw coal ("Raw Coal") extracted from the coal mines owned by Mengxi Minerals in Inner Mongolia of the PRC and all related coal products and derivative products. Raw coal is the principal raw material used by Mengxi Chemical for its production of coking coal, thermal coal, coke and coking by-products. The Supply Agreement grants to Mengxi Chemical a right to purchase Raw Coal from Mengxi Minerals at a price that is capped at the prevailing market price and thus ensuring the competitiveness of its products in the market place.

Inner Mongolia Mengxi Gaoxing High Tech Limited ("Mengxi HT") holds 30% of the equity interests in each of Mengxi Minerals and Mengxi Chemical. Mengxi HT is therefore a connected person of the Company at subsidiary level. Thus, the continuing transaction pursuant to the Supply Agreement entered into between Mengxi Chemical and Mengxi Minerals constitute a continuing connected transaction for the Company under the GEM Listing Rules.

Pursuant to the Supply Agreement, Mengxi Minerals shall supply, on an exclusive basis, and Mengxi Chemical shall purchase the Raw Coal extracted by Mengxi Minerals. Within one month upon the Supply Agreement becoming effective and in the first month of each calendar year during the term of the Supply Agreement, parties to the Supply Agreement shall agree on the annual plan of Mengxi Minerals for that calendar year (including but not limited to its quantity of the Raw Coal to be extracted or produced, type of products, its specification and quality, expected production timetable and time of delivery, etc.). Without the prior consent of Mengxi Chemical in writing, the quantity of the Raw Coal as produced or extracted by Mengxi Minerals shall not exceed the quantity specified in the annual plan as agreed by the parties to the Supply Agreement.

The Supply Agreement provides that Mengxi Chemical may assign part or all of the said agreement to third party to purchase the Raw Coal at a price no less than the applicable price offered by Mengxi Minerals under the Supply Agreement. The Supply Agreement is for a term of three years effective upon the Acquisition Completion Date (i.e. 10 June 2008). At the end of each three-year term, Mengxi Chemical has the right (but not the obligation) to renew the Supply Agreement for a further term of three years. The applicable price of the Raw Coal is determined on a cost-plus basis, which is determined as the cost of production of the Raw Coal plus a value added rate of 10%, subject to the condition that the applicable price shall not be higher than the market price of the Raw Coal.

Mengxi Chemical shall pay Mengxi Minerals for the Raw Coal purchased within one month from the date of delivery of the Raw Coal to Mengxi Chemical by way of cash.

No Raw Coal and related products were purchased by Mengxi Chemical from Mengxi Minerals under the Supply Agreement for the period ended 31 December 2010, and accordingly the annual cap of RMB180 million (approximately HK$207.2 million) for the period ended 31 December 2010 as set out in the Company's circular dated 30 April 2008 has not been exceeded.

With the written consent of Mengxi Chemical, during the period from 1 April 2010 to 11 September 2010, about 103,100 tones of Raw Coal were sold by Mengxi Minerals to local coal operators in accordance with the terms of the supply agreement, generating revenue of approximately RMB16.7 million (equivalent to approximately HK$19.3 million).

Upon completion of the merger of Mengxi Chemical and Mengxi Minerals (the "Merger") on 10 August 2010 and dissolution of Mengxi Chemical on 12 September 2010, the Supply Agreement lasped, the Group no longer has any continuing connected transactions.

Report of the Directors

Directors' And Chief Executives' Interests And Short Positions In The Shares, Underlying Shares And Debentures Of The Company Or Any Associated Corporations

As at 31 December 2010, the interests and short positions of the directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of underlying Shares *(Note)*	Approximate percentage of the total issued Shares as at 31 December 2010
Chan Nap Kee, Joseph	Beneficial owner	20,420,000	24,981,750	2.15%
Chow Pok Yu, Augustine	Beneficial owner	990,000	4,925,000	0.28%
Yang Yongcheng	Beneficial owner	100,000	4,925,000	0.24%
Liew Swee Yean	Beneficial owner	540,000	—	0.03%
Siu Siu Ling, Robert	Beneficial owner	540,000	—	0.03%
Wong Yun Kuen	Beneficial owner	1,000,000	—	0.05%
Anderson Brian Ralph	Beneficial owner	—	1,200,000	0.06%
Li Hong	Beneficial owner	—	3,000,000	0.14%

Note: The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the options granted by the Company to the above mentioned directors pursuant to the share option scheme.

Save as disclosed above, as at 31 December 2010, none of the directors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) which is required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

Report of the Directors

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

(a) As at 31 December 2010, the register of substantial shareholders maintained by the company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number of underlying Shares *(Note 3)*	Total Interest	Approximate percentage of the total issued Shares as at the 31 December 2010
Substantial shareholders					
Zhang Zhi Ping	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 *(Note 1)*	25.07%
Zhang Gaobo	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 *(Note 1)*	25.07%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 *(Note 1)*	25.07%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	129,260,000	206,070,000	335,330,000 *(Note 1)*	15.86%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	129,260,000	206,070,000	335,330,000 *(Note 1)*	15.86%
Other persons who had interests in the Shares and underlying Shares					
Oriental Patron Financial Services Group Limited ("OPFSGL")	Interest of a controlled corporation	86,380,000	108,420,000	194,800,000 *(Note 1)*	9.21%
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/ Interest of a controlled corporation	230,000,000	791,000,000	1,021,000,000 *(Note 2)*	48.29%

Report of the Directors

Notes:

1. OPFGL holds 215,640,000 Shares and 314,490,000 underlying Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

   Of these 215,640,000 Shares and 314,490,000 underlying Shares of the Company, 86,380,000 Shares and 108,420,000 underlying Shares are held by PTHL. PTHL is wholly-owned by OPFSGL, OPFSGL is 95% held by OPGFL. Zhang Zhi Ping, Zhang Gaobo, OPFGL and OPFSGL are deemed to be interested in the interests held by PTHL under the SFO.

   Of these 215,640,000 Shares and 314,490,000 underlying Shares, 129,260,000 Shares and 206,280,000 underlying Shares are held by PRIL. PRIL is wholly-owned by OPFIL, OPFIL is 42.07% held by Ottness Investments Limited ("OIL"). Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

2. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific Source Limited ("Grand Pacific"), which was a wholly-owned subsidiary of GEM Global; and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

   The Directors are unable to ascertain the interests of GEM Global as at the Latest Practicable Date, and confirm whether the interests of GEM Global as at the Latest Practicable Date, have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company's announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK$540 Million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company's announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer Stone Investments Limited ("Glimmer") from GEM Global on the same day, and 60 million Consideration Shares were transferred from Grand Pacific to GEM Global as consideration for such acquisition. Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of the acquisition of Grand Pacific by Glimmer mentioned above. The Company has not received any updated corporate substantial notice of GEM Global after 3 April 2008. However, the Directors cannot exclude the possibility that GEM Global may have acquired or disposed of any interests in shares or underlying shares of the Company after the above announcements.

   The Directors are also unable to ascertain the shareholding of GEM Global from the register of members of the Company as the information contained therein may not reflect the actual beneficial shareholdings of the shareholders (i.e. the registered shareholders may be have trustee or holding some shares of the Company on behalf of the others and this kind of interest is not required to be disclosed under the SFO).

3. The long positions in underlying Shares mentioned above represent the interests held by such Bondholders as at 31 December 2010 in the convertible bonds in the principal amount of HK$217,660,000 convertible into 314,490,000 new Shares issued by the Company on and subject to the terms of the Variation Agreement.

Save as disclosed above, the Directors were not aware of any other person (other than the directors and the chief executives of the Company) who, as at 31 December 2010, had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 & 3 of Part XV of the SFO.

Report of the Directors

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period under review.

Major Customers and Suppliers

The percentages of cost of sales and sales for the period attributable to the Group's major suppliers and customers are as follows:

Cost of sales	
— the largest supplier	51.00%
— five largest suppliers combined	100.00%
Sales	
— the largest customer	21.61%
— five largest customers combined	79.47%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers mentioned above.

Compliance with the Code on Corporate Governance Practices

The Company has complied with most of the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules during the period ended 31 December 2010. Details of compliance and deviation are set out in the Corporate Governance Report on pages 33 to 39.

Directors' Interest in Competing Business

None of the directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles and there are no restrictions against such rights under the laws in the Cayman Islands.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 31 to the Financial Statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float in accordance with the GEM Listing Rules.

Report of the Directors

Events after the Reporting Period

Subsequent to the end of the reporting period, the Group does not have any significant subsequent events.

Auditors

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be proposed at the forthcoming AGM.

There is no change of auditors of the Company since its incorporation.

For and on behalf of the Board

Chan Nap Kee, Joseph
Chairman

Hong Kong, 28 February 2011

Corporate Governance Report

Code on Corporate Governance Practices

Except for Code Provision A2.1, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 on the GEM Listing Rules throughout the period.

The Code Provision A2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

During the period from 2 November 2010 to the date of this report, Mr. Chan Nap Kee Joseph, chairman, took up the role of acting chief executive officer as well, which deviates from Code Provision A2.1.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors ("Directors") of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the Period. The Company has also made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

The Board of Directors

Composition of the Board of Directors (the "Board")

As at 31 December 2010, the Board comprised eight directors, including four executive directors, namely Mr. Chan Nap Kee Joseph, Dr. Chow Pok Yu Augustine, Mr. Yang Yongcheng and Mr. Li Hong and four independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Mr. Chan Nap Kee Joseph is the chairman and the acting chief executive officer of the Board. One of the independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise. Biographical details of the directors are set out on pages 13 to 20 of this annual report.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of one year, which may be extended for such period as agreed in writing between the director concerned and the Company.

There is no financial, business, family or other material or relevant relationship among the directors.

Independent Non-Executive Directors

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules and still considers that they are independent.

Role and Function of the Board

The principal role of the Board is to formulate the operational strategies and establish an internal control system together with a high standard of corporate governance to ensure proper management of the Group. The daily operational matters of the Group are delegated by the Board to the management.

Corporate Governance Report

Board Meetings

Six regular Board meetings were held during the period ended 31 December 2010. The Board meetings involved the active participation of the directors either in person or through other electronic means of communication.

At least 14 days notice has been given to all directors of each of the Board meetings.

Attendance of each of the directors at Board meetings during the period ended 31 December 2010 is set out as follows:

Number of Board Meetings		**6**
Executive Directors:		
Mr. Chan Nap Kee, Joseph *(Chairman and Acting Chief Executive Officer)*	6/6	100%
Mr. Yeap Soon P. Jonathan *(Chief Executive Officer)* (Up to 2 November 2010)	3/4	75%
Dr. Chow Pok Yu, Augustine	6/6	100%
Mr. Yang Geyan (Up to 16 August 2010)	3/3	88.24%
Mr. Yang Yongcheng	4/6	66.67%
Mr. Li Hong (from 3 September 2010 onwards)	2/2	100%
Independent Non-Executive Directors:		
Mr. Liew Swee Yean	6/6	94.12%
Mr. Siu Siu Ling, Robert	4/6	66.67%
Dr. Wong Yun Kuen	6/6	100%
Mr. Anderson Brian Ralph	4/6	66.67%
Average attendance rate	86.27%	

Internal Control

The Board has overall responsibilities for maintaining and reviewing the effectiveness of the system of internal control of the Group. The internal control system is to safeguard the assets of the Group and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirements of the GEM Listing Rules. During the period ended 31 December 2010, the Board had reviewed the effectiveness of the system of internal control of the Group. The review had covered all material aspects of internal control including financial, operational and compliance controls and risk management functions of the Group. The board also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programme and budget.

Chairman and Chief Executive Officer

Chairman and chief executive officer were two separate persons. Mr. Chan Nap Kee Joseph was the chairman and Mr. Yeap Soon P. Jonathan was the chief executive officer for the period from 1 April 2010 to 2 November 2010.

The Code Provision A2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

As Mr. Yeap Soon P. Jonathan resigned as chief executive officer on 2 November 2010, effective from 2 November 2010, Mr. Chan Nap Kee Joseph, chairman, took up the role of acting chief executive officer as well, which deviates from Code Provision A2.1.

Corporate Governance Report

Remuneration Committee

Composition of the Remuneration Committee

The Code Provision B.1.1 stipulates that listed issuers should establish a remuneration committee with specific written terms of reference.

The Company has established the Remuneration Committee in March 2006. The existing Remuneration Committee comprised two executive directors and four independent non-executive directors, namely Mr. Chan Nap Kee Joseph, Dr. Chow Pok Yu Augustine, Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Dr. Wong Yun Kuen is the Chairman of the Remuneration Committee.

The Board has adopted the terms of reference of the Remuneration Committee in alignment with the mandatory provisions as set out in the Code Provision B.1.3.

Role and Function of the Remuneration Committee

The role and function of the Remuneration Committee includes making recommendations to the Board on Company's policy and structure for all remuneration packages of directors and senior management, establishing formal and transparent procedures for formulating policy on such remuneration packages and determining the specific remuneration packages of all executive directors and senior management staff of the Company.

Remuneration Policy

The formulation of the Group's remuneration strategy and policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. As a long-term incentive plan and with the aim at motivating directors and employees in the continued pursuit of the Company's goal and objectives, the Company has adopted a share option scheme under which the Company may grant share options to the directors/employees to subscribe for the shares of the Company.

Remuneration Committee Meetings

The Remuneration Committee has held two meetings during the period ended 31 December 2010. During the meetings, the Remuneration Committee had reviewed and approved the increment in salary, housing allowance, bonus payment and share options for the executive directors and the senior management by way of resolutions passed by all committee members. However, the executive directors did not participate in determining their own remuneration.

During the period under review, the Remuneration Committee had undertaking the following duties:

(i) approved the salary, housing allowance and bonus payment for an executive director and the senior management of the Company; and

(ii) authorised the Board to grant share options to the executive directors and the senior management of the Company in accordance with the rules of the share option scheme of the Company.

Corporate Governance Report

Attendance of each of the directors at the Remuneration Committee meetings during the period ended 31 December 2010 is set out as follows:

Number of Remuneration Committee Meetings		**2**	
Dr. Wong Yun Kuen *(Committee Chairman)*	2/2		100%
Mr. Chan Nap Kee, Joseph	2/2		100%
Dr. Chow Pok Yu, Augustine	2/2		100%
Mr. Liew Swee Yean	2/2		100%
Mr. Siu Siu Ling, Robert	2/2		100%
Mr. Anderson Brian Ralph	2/2		100%
Average attendance rate		100%	

Nomination of Directors

The Company does not have a Nomination Committee, and the power to nominate or appoint additional directors is vested on the Board according to the Articles, in addition to the power of the shareholders of the Company to nominate any person to become a director in accordance with the Articles and the laws of the Cayman Islands.

In assessing the nomination of new directors, the Board has taken into consideration the nominee's qualification, ability and potential contributions to the Company. The Company also follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The Board constantly reviews its own structure, size and composition and when necessary instructs the management of the Company to identify suitably qualified candidates which then makes recommendations to the Board for decisions.

During the period ended 31 December 2010, the Board has reviewed its own structure, size and composition and considered one executive director was appointed in existing Board composition.

The following is a summary of work regarding nominations of directors performed by the Board for the period ended 31 December 2010:

(i) approved the list of retiring directors for re-election at the annual general meeting;

(ii) reviewed the independence of all independent non-executive directors; and

(iii) reviewed its own structure, size and composition; and

(iv) instructed the management of the Company to identify suitable candidates to fill casual vacancies on the Board and reviewed such nominations.

Auditors' Remuneration

For the period ended 31 December 2010, the fee paid or payable to external auditors in respect of audit and non-audit services amounted to HK$630,000 and HK$20,000 respectively.

Corporate Governance Report

Preparation of Accounts

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flows for the period under review. In preparing the accounts for the period ended 31 December 2010, the directors have approved adoption of all the applicable standards and interpretations of Hong Kong Financial Reporting Standards ("HKFRSs").

The quarterly, interim and annual results of the Company are announced in a timely manner after the end of the relevant periods.

Audit Committee

Composition of the Audit Committee

The Company established the audit committee ("Audit Committee") on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and Code Provision C3.3 of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises four independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, and Mr. Liew Swee Yean is the chairman of the Audit Committee.

During the Period under review, the audit committee held three meetings to review and supervise the financial reporting process. The results for the Period have been reviewed by the Audit Committee who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and adequate disclosures have been made.

Role and Function of the Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, Rules 5.28 to 5.33 of the GEM Listing Rules and Code Provision C.3.3 of the Code.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide an important link between the Board and the Company's auditors on those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit and conducts risk evaluation.

The Audit Committee is provided with sufficient resources to discharge its responsibilities and is supported by the Finance Department of the Company. The Audit Committee is accountable to the Board.

Corporate Governance Report

Audit Committee Meetings

During the period ended 31 December 2010, the Audit Committee has held three meetings to review and supervise the financial reporting process and Audit Committee has reviewed the quarterly, interim and annual results and system of internal controls. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The Audit Committee also carried out and discharged its other duties as set out in the Code.

Attendance of each of the independent non-executive directors at the Audit Committee meetings during the period ended 31 December 2010 is set out as follows:

Number of Audit Committee Meetings		**3**	
Mr. Liew Swee Yean *(Committee Chairman)*	3/3		100%
Mr. Siu Siu Ling, Robert	1/3		33.33%
Dr. Wong Yun Kuen	3/3		100%
Mr. Anderson Brian Ralph	2/3		66.67%
Average attendance rate		75%	

During the period under review, the Audit Committee had undertaken the following duties:

(i) made recommendations to the Board on the appointment, reappointment or removal of the external auditors (the "Auditors") and approved the audit fees and terms of engagement of the Auditors, or any questions of resignation or dismissal of the Auditors;

(ii) reviewed the quarterly, interim and annual financial statements prior to recommending them to the Board for approval;

(iii) reviewed the Auditors' management letter and the management's response thereto, and to ensure that recommendations made by the Auditors are carried out;

(iv) reviewed the operation and effectiveness of the Company's financial control, internal control and risk management systems;

(v) reviewed the appropriateness of reporting and accounting policies and disclosure practices; and

(vi) reviewed the work of the Internal Audit Department, ensuring coordination between the Internal Audit Department and the Auditors, and reviewing and monitoring the effectiveness of the internal audit function.

Corporate Governance Report

During the period under review, the Board, through the Audit Committee, reviewed the effectiveness of the Group's system of internal control over financial, operational and compliance issues, broad-based risk management processes, and physical and information systems security. To formalize the annual review of internal control system, the Audit Committee made reference to the globally recognised framework with modifications to include some controls which are specific to the Group's operation. The Audit Committee concluded that, in general, the Group has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the Code Provisions on internal controls as set forth in the Code for the period ended 31 December 2010.

The Group's financial statements for the period ended 31 December 2010 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement by the Auditors of the Company about their reporting responsibilities is set out on page 40 of this report.

Independent Auditor's Report

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
KAISUN ENERGY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kaisun Energy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 100, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 April 2010 to 31 December 2010 and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's results and cash flows for the period from 1 April 2010 to 31 December 2010 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong
28 February 2011

Consolidated Income Statement

for the period from 1 April 2010 to 31 December 2010

	Note	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Continuing operations			
Turnover	6	**59,618,521**	14,352,252
Cost of goods sold		**(30,765,265)**	(5,827,509)
Gross profit		**28,853,256**	8,524,743
Other income	7	**809,590**	254,796
Selling and distribution costs		**(120,524)**	(272,460)
Administrative and other operating expenses		**(38,081,584)**	(51,230,009)
Loss from operations		**(8,539,262)**	(42,722,930)
Finance costs	8	**(16,244,593)**	(236,803,644)
Share of losses of an associate		**–**	(13,576,930)
Fair value gain on step acquisition of a subsidiary		**–**	401,620,781
Excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary	32(a)	**–**	348,159,729
(Loss)/profit before tax		**(24,783,855)**	456,677,006
Income tax expense	9	**(3,454,220)**	(386,576)
(Loss)/profit for the period/year from continuing operations		**(28,238,075)**	456,290,430
Discontinued operations			
Loss for the year from discontinued operations	10	**–**	(7,606,694)
(Loss)/profit for the period/year	11	**(28,238,075)**	448,683,736
Attributable to:			
Owners of the Company			
(Loss)/profit from continuing operations		**(31,835,032)**	457,651,902
Loss from discontinued operations		**–**	(4,958,525)
(Loss)/profit attributable to owners of the Company		**(31,835,032)**	452,693,377
Non-controlling interests			
Profit/(loss) from continuing operations		**3,596,957**	(1,361,473)
Loss from discontinued operations		**–**	(2,648,168)
Profit/(loss) attributable to non-controlling interests		**3,596,957**	(4,009,641)
		(28,238,075)	448,683,736

Consolidated Income Statement

for the period from 1 April 2010 to 31 December 2010

	Note	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
(Loss)/earnings per share (cents)	14		
From continuing and discontinued operations			
— basic		(1.52)	29.94
— diluted		(0.64)	26.03
From continuing operations			
— basic		(1.52)	30.27
— diluted		(0.64)	26.30

Consolidated Statement of Comprehensive Income

for the period from 1 April 2010 to 31 December 2010

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
(Loss)/profit for the period/year	(28,238,075)	448,683,736
Other comprehensive income for the period/year, net of tax		
Exchange differences on translating foreign operations	72,593,019	4,937,889
Total comprehensive income for the period/year	44,354,944	453,621,625
Attributable to:		
Owners of the Company	18,978,904	456,231,817
Non-controlling interests	25,376,040	(2,610,192)
	44,354,944	453,621,625

Consolidated Statement of Financial Position

at 31 December 2010

	Note	At 31 December 2010 HK$	At 31 March 2010 HK$
Non-current assets			
Fixed assets	16	**101,102,623**	33,199,570
Intangible assets	17	**3,199,018,096**	3,106,727,960
Deposits paid for construction in progress		**221,707,925**	155,524,547
Available-for-sale financial assets	18	**—**	3,591,185
		3,521,828,644	3,299,043,262
Current assets			
Inventories	20	**142,171**	88,540
Trade and bills receivables	21	**30,570,552**	5,793,531
Deposits, prepayments and other receivables	22	**75,201,368**	19,634,170
Bank and cash balances	23	**242,442,501**	439,738,657
		348,356,592	465,254,898
Current liabilities			
Other payables and accruals	24	**26,911,753**	31,948,887
Deposits received and receipts in advance		**19,558,990**	15,750,188
Bank loan	26	**5,856,250**	—
Current tax liabilities		**2,961,501**	387,346
		55,288,494	48,086,421
Net current assets		**293,068,098**	417,168,477
Total assets less current liabilities		**3,814,896,742**	3,716,211,739
Non-current liabilities			
Deferred tax liabilities	19	**796,400,332**	773,424,565
Convertible bonds	25	**186,211,165**	228,173,030
Bank loan	26	**345,518,750**	341,238,000
		1,328,130,247	1,342,835,595
NET ASSETS		**2,486,766,495**	2,373,376,144
Capital and reserves			
Share capital	27	**21,143,838**	20,056,750
Reserves	29	**1,709,271,622**	1,622,344,399
Equity attributable to owners of the Company		**1,730,415,460**	1,642,401,149
Non-controlling interests		**756,351,035**	730,974,995
TOTAL EQUITY		**2,486,766,495**	2,373,376,144

Approved by the Board of Directors on 28 February 2011.

CHAN Nap Kee, Joseph
Director

Dr. CHOW Pok Yu, Augustine
Director

Consolidated Statement of Changes in Equity

for the period from 1 April 2010 to 31 December 2010

	Attributable to owners of the Company								
	Share capital HK$	**Share premium** *(note 29(c)(i))* HK$	**Foreign currency translation reserve** *(note 29(c)(ii))* HK$	**Share-based payment reserve** *(note 29(c)(iii))* HK$	**Convertible bonds reserve** *(note 3(m))* HK$	**Retained profits** HK$	**Total** HK$	**Non-controlling interests** HK$	**Total equity** HK$
At 1 April 2009	7,700,000	142,936,387	(273,060)	12,980,794	—	116,144,953	279,489,074	39,706,579	319,195,653
Total comprehensive income for the year	—	—	3,538,440	—	—	452,693,377	456,231,817	(2,610,192)	453,621,625
Share-based payments	—	—	—	16,361,262	—	—	16,361,262	—	16,361,262
Share options forfeited	—	—	—	(16,276)	—	16,276	—	—	—
Issue of shares for convertible bonds converted *(note 27)*	7,700,000	403,305,272	—	—	—	—	411,005,272	—	411,005,272
Recognition of equity component of replacement convertible bonds issued *(note 25)*	—	—	—	—	203,821,441	—	203,821,441	—	203,821,441
Issue of shares for replacement convertible bonds converted *(note 27)*	1,959,200	165,467,588	—	—	(65,268,655)	—	102,158,133	—	102,158,133
Placement of shares *(note 27)*	2,400,000	165,600,000	—	—	—	—	168,000,000	—	168,000,000
Issue expenses for placement of shares	—	(12,310,000)	—	—	—	—	(12,310,000)	—	(12,310,000)
Issue of shares on exercise of share options *(note 27)*	297,550	24,428,259	—	(7,081,659)	—	—	17,644,150	—	17,644,150
Acquisition of a subsidiary *(note 32(a))*	—	—	—	—	—	—	—	703,751,032	703,751,032
Disposal of subsidiaries *(note 32(b))*	—	—	—	—	—	—	—	(9,872,424)	(9,872,424)
Changes in equity for the year	12,356,750	746,491,119	3,538,440	9,263,327	138,552,786	452,709,653	1,362,912,075	691,268,416	2,054,180,491
At 31 March 2010 and 1 April 2010	20,056,750	889,427,506	3,265,380	22,244,121	138,552,786	568,854,606	1,642,401,149	730,974,995	2,373,376,144
Total comprehensive income for the period	—	—	50,813,936	—	—	(31,835,032)	18,978,904	25,376,040	44,354,944
Share-based payments	—	—	—	9,501,293	—	—	9,501,293	—	9,501,293
Share options forfeited	—	—	—	(2,380,648)	—	2,380,648	—	—	—
Issue of shares for replacement convertible bonds converted *(note 27)*	1,069,000	91,877,184	—	—	(34,751,459)	—	58,194,725	—	58,194,725
Issue of shares on exercise of share options *(note 27)*	18,088	1,875,846	—	(554,545)	—	—	1,339,389	—	1,339,389
Changes in equity for the period	1,087,088	93,753,030	50,813,936	6,566,100	(34,751,459)	(29,454,384)	88,014,311	25,376,040	113,390,351
At 31 December 2010	21,143,838	983,180,536	54,079,316	28,810,221	103,801,327	539,400,222	1,730,415,460	756,351,035	2,486,766,495

Consolidated Statement of Cash Flows

for the period from 1 April 2010 to 31 December 2010

	Note	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(24,783,855)	449,624,399
Adjustments for:			
Depreciation		1,035,422	884,808
Written off of fixed assets		—	80,866
Loss on disposals of fixed assets		333,668	—
Loss on disposals of subsidiaries		—	10,366,094
Loss on disposals of available-for-sale financial assets		2,851,965	—
Equity-settled share-based payments		9,501,293	16,361,262
Fair value gain on step acquisition of a subsidiary		—	(401,620,781)
Excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary		—	(348,159,729)
Finance costs		16,244,593	29,789,071
Interest income		(791,259)	(178,947)
Fair value loss on derivative component of convertible bonds		—	207,015,056
Share of losses of an associate		—	13,576,930
Operating profit/(loss) before working capital changes		4,391,827	(22,260,971)
(Increase)/decrease in inventories		(53,631)	379,695
Increase in trade and bills receivables		(24,777,021)	(5,431,620)
Increase in deposits, prepayments and other receivables		(55,567,198)	(6,253,870)
Increase in trade payables		—	76,766
(Decrease)/increase in other payables and accruals		(5,037,134)	6,619,568
Increase in deposits received and receipts in advance		3,808,802	10,978,153
Cash used in operations		(77,234,355)	(15,892,279)
Interest paid		(15,944,756)	(4,787,478)
Income tax paid		(880,065)	(53,701)
Net cash used in operating activities		(94,059,176)	(20,733,458)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		791,259	178,947
Purchases of fixed assets		(51,335,897)	(5,655,065)
Additions of deposits paid for construction in progress		(66,183,378)	(6,987,937)
Additions of intangible assets		—	(220,099)
Proceeds from disposals of fixed assets		368,475	—
Net proceeds from disposal of available-for-sale financial assets		739,220	—
Increase in pledged bank deposits		—	(2,152)
Acquisition of subsidiaries	32(a)	—	166,268,073
Disposal of subsidiaries	32(b)	—	(17,373,945)
Net cash (used in)/generated from investing activities		(115,620,321)	136,207,822

Consolidated Statement of Cash Flows

for the period from 1 April 2010 to 31 December 2010

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loans raised	—	113,554,000
Repayment to a former non-controlling shareholder	—	(1,168,733)
Payment on convertible bonds converted	—	(50,400)
Payment on replacement convertible bonds converted	(11,733)	(27,697)
Share placement fees paid	—	(12,310,000)
Proceeds from placement of shares	—	168,000,000
Proceeds from shares issued in exercise of share options	1,339,389	17,644,150
Net cash generated from financing activities	1,327,656	285,641,320
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(208,351,841)	401,115,684
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	11,055,685	975,923
	(197,296,156)	402,091,607
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	439,738,657	37,647,050
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	242,442,501	439,738,657
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	242,442,501	439,738,657

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

1. General Information

The Company was incorporated in the Cayman Islands with limited liability. 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 5/F., 31C–D Wyndham Street, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the financial statements.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting period beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

During the period, the Company changed its financial year end date from 31 March to 31 December in order to conform to the financial year end date of its major subsidiary. The current period financial statements cover a nine months period ended 31 December 2010 and the comparative financial statements cover a twelve months year ended 31 March 2010. The comparative amounts are therefore not entirely comparable.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

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

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

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

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (t) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

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

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

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

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

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

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

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation of fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2%–4.5%
Leasehold improvements	20%–30%
Plant and machinery	9%–20%
Office equipment	15%–25%
Furniture and fixtures	10%–20%
Motor vehicles	10%–30%

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

(e) Leases

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(f) Intangible assets

Intangible assets that acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at the end of each reporting period.

(g) Discontinued operations

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(j) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments are classified as available-for-sale financial assets.

(i) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(m) Financial liabilities and equity instruments *(Continued)*

Convertible loans

Convertible loans which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition.

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Trade and other payables

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(n) Revenue recognition

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

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

Service income is recognised when services are rendered.

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

3. Significant Accounting Policies *(Continued)*

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(r) Taxation *(Continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. Significant Accounting Policies *(Continued)*

(t) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

3. Significant Accounting Policies *(Continued)*

(v) Events after the reporting period

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

4. Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fixed assets and depreciation

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

Impairment of intangible assets

The Group assesses whether there are any indicators of impairment for intangible assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, the directors must estimate the expected future cash flows from the assets or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

5. Financial Risk Management

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

(a) Foreign currency risk

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

At 31 December 2010, if the HK$ had weakened 0.5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the period would have been HK$32,307 lower (for the year ended 31 March 2010: consolidated profit after tax for the year would have been HK$32,207 higher), arising mainly as a result of the foreign exchange gain on bank and cash balances and other receivables denominated in US$. If the HK$ had strengthened 0.5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the period would have been HK$32,307 higher (for the year ended 31 March 2010: consolidated profit after tax for the year would have been HK$32,207 lower), arising mainly as a result of the foreign exchange loss on bank and cash balances and other receivables denominated in US$.

(b) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

5. Financial Risk Management *(Continued)*

(c) Liquidity risk *(Continued)*

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$	Over 5 years HK$
At 31 December 2010				
Other payables and accruals	26,911,753	—	—	—
Convertible bonds	—	—	250,085,960	—
Bank loans	26,868,475	38,218,298	278,473,538	95,787,790
At 31 March 2010				
Other payables and accruals	31,948,887	—	—	—
Convertible bonds	—	—	333,818,463	—
Bank loans	20,406,032	25,997,359	215,310,374	184,433,604

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2010, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated loss after tax for the period would have been HK$82,559 higher (for the year ended 31 March 2010: consolidated profit after tax for the year would have been HK$139,174 lower), arising mainly as a result of lower interest income on bank deposits. If interest rates had been 50 basis points higher, with all other variables held constant, consolidated loss after tax for the period would have been HK$412,797 lower (for the year ended 31 March 2010: consolidated profit after tax for the year would have been HK$695,868 higher), arising mainly as a result of higher interest income on bank deposits.

(e) Categories of financial instruments at 31 December 2010

	At 31 December 2010 HK$	At 31 March 2010 HK$
Financial assets		
Loans and receivables (including cash and cash equivalents)	**341,482,162**	455,160,239
Available-for-sale financial assets	**—**	3,591,185
Financial liabilities		
Financial liabilities at amortised cost	**564,497,918**	601,359,917

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

5. Financial Risk Management *(Continued)*

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2010:

	Fair value measurement using:			**Total 31 December**
Description	**Level 1 HK$**	**Level 2 HK$**	**Level 3 HK$**	**2010 HK$**
Available-for-sale financial assets	—	—	—	—

Description	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total 31 March 2010 HK$
Available-for-sale financial assets	—	—	3,591,185	3,591,185

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

5. Financial Risk Management *(Continued)*

(f) Fair values *(Continued)*

Reconciliation of assets measured at fair value based on level 3:

Available-for-sale financial assets

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
At beginning of period/year	3,591,185	—
Recognised upon disposal of subsidiaries *(note 32(b))*	—	3,591,185
Total gains or losses recognised in profit and loss stated in the income statement	(2,851,965)	—
Net proceeds on disposal	(739,220)	—
At end of period/year	—	3,591,185

6. Turnover

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Turnover		
Sales of goods	59,618,521	15,438,027
Services rendered	—	47,367,547
	59,618,521	62,805,574
Representing:		
Continuing operations	59,618,521	14,352,252
Discontinued operations *(note 10)*	—	48,453,322
	59,618,521	62,805,574

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

7. Other Income

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Interest income	791,259	178,947
Sundry income	18,331	281,938
	809,590	460,885
Representing:		
Continuing operations	809,590	254,796
Discontinued operations *(note 10)*	–	206,089
	809,590	460,885

8. Finance Costs

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Interest on bank loans and overdrafts	15,944,756	4,759,738
Amount capitalised	(15,944,756)	(4,757,175)
	–	2,563
Interest on convertible bonds	16,244,593	29,758,768
Interest on loan from an owner	–	27,740
Fair value loss on derivative component of convertible bonds	–	207,015,056
	16,244,593	236,804,127
Representing:		
Continuing operations	16,244,593	236,803,644
Discontinued operations *(note 10)*	–	483
	16,244,593	236,804,127

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

9. Income Tax Expense

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Current tax — Hong Kong Profits Tax		
Provision for the period/year	**—**	550,138
Current tax — PRC enterprise income tax		
Provision for the period/year	**3,454,220**	386,576
Deferred tax *(note 19)*	**—**	3,949
	3,454,220	940,663
Representing:		
Continuing operations	**3,454,220**	386,576
Discontinued operations *(note 10)*	**—**	554,087
	3,454,220	940,663

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the period. The amount provided for the year ended 31 March 2010 was calculated at 16.5% based on assessable profit for that year. Certain allowable losses of the subsidiaries of the Company incorporated in Hong Kong are yet to be agreed by the Inland Revenue Department.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to relevant laws and regulations in the People's Republic of China (the "PRC"), the tax rate applicable to the subsidiary in the PRC was 25%.

9. Income Tax Expense *(Continued)*

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

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
(Loss)/profit before tax	**(24,783,855)**	449,624,399
Tax at the domestic income tax rate of 16.5%	**(4,089,336)**	74,188,026
Tax effect of income that is not taxable	**(73,788)**	(144,491,572)
Tax effect of expenses that are not deductible	**6,711,396**	70,187,713
Tax effect of tax loss not recognised	**—**	1,015,030
Tax effect of utilisation of tax loss not previously recognised	**(173,657)**	—
Effect of different tax rates of subsidiaries operating in other jurisdiction	**1,198,409**	(345,110)
(Under)/Over-provision in respect of current period/year	**(118,804)**	386,576
Income tax expense	**3,454,220**	940,663

10. Discontinued Operations

Pursuant to an agreement dated 27 November 2009 entered into between the Group and an independent third party (the "Purchaser"), the Group disposed of 51% interest in Global On-Line Distribution Limited ("Global On-Line"). Global On-Line is engaged in the trading of printing accessories and batteries during the year ended 31 March 2010. The disposal was completed on 30 November 2009 and the Group discontinued its trading of printer accessories and batteries business.

Pursuant to a conditional subscription agreement dated 8 February 2010 entered into between Long Capital Development Limited ("Long Capital"), a then subsidiary of the Group, and an independent third party (the "Subscriber"), Long Capital agreed to allot and issue and the Subscriber agreed to subscribe 25,000 new shares of US$1 each in the capital of Long Capital at a consideration of HK$4,500,000. Long Capital is an investment holding company and its subsidiary is engaged in the provision of repairs and maintenance services to motor vehicles, operating car accessories shop, car washing, cleaning and beauty services during the year ended 31 March 2010. Upon completion of the subscription, the Group's shareholding in Long Capital reduced from 51% to 14.57%. The deemed disposal was completed on 31 March 2010 and the Group discontinued its provision of repairs and maintenance services to motor vehicles, operating car accessories shop, car washing, cleaning and beauty services business.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

10. Discontinued Operations *(Continued)*

The loss for the year ended 31 March 2010 from the discontinued operations is analysed as follows:

	HK$
Profit of discontinued operations	2,759,400
Loss on disposal of discontinued operations *(note 32(b))*	(10,366,094)
	(7,606,694)

The results of the discontinued operations for the year ended 31 March 2010, which have been included in the consolidated profit or loss, are as follows:

	HK$
Turnover	48,453,322
Cost of goods sold and services rendered	(11,324,186)
Gross profit	37,129,136
Other income	206,089
Selling and distribution costs	(1,518,098)
Administrative and other operating expenses	(32,503,157)
Profit from operations	3,313,970
Finance costs	(483)
Profit before tax	3,313,487
Income tax expense	(554,087)
Profit for the year	2,759,400

During the year ended 31 March 2010 the disposed subsidiaries received approximately HK$6,083,000 in respect of operating activities, paid approximately HK$589,000 in respect of investing activities and received approximately HK$3,329,000 in respect of financing activities.

No tax charge or credit arose on the loss on disposal of the discontinued operations.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

11. (Loss)/Profit for the Period/Year

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

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Auditor's remuneration	**653,025**	739,277
Cost of inventories sold	**—**	886,276
Depreciation	**1,035,422**	884,808
Loss on disposals of available-for-sale financial assets	**2,851,965**	—
Loss on disposals of fixed assets	**333,668**	—
Written off of deposits paid *(note)*	**11,307,910**	—
Written off of fixed assets	**—**	80,866
Operating lease rentals in respect of land and buildings	**207,000**	13,172,303
Other equity-settled share-based payments	**9,501,293**	—
Staff costs (including directors' emoluments) *(note 12)*		
Basic salaries, bonuses, allowances and benefits in kind	**6,974,543**	37,500,948
Equity-settled share-based payments	**—**	16,361,262
Retirement benefits scheme contributions	**390,607**	922,014
Net exchange (gain)/losses	**(56,022)**	120,597

Note: Written off of deposits paid related to the professional fee and various expenses incurred for proposed acquisition of oil and gas exploration and production business in Russia terminated during the period.

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for the period from 1 April 2010 to 31 December 2010

12. Directors' and Five Highest Paid Individuals' Emoluments

(a) Directors' emoluments

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Share-based payments	Retirement benefits scheme contributions	Total emoluments
	HK$	HK$	HK$	HK$	HK$	HK$
Executive directors						
YEAP Soon P, Jonathan (resigned on 2 November 2010)	—	2,450,000	—	—	7,000	2,457,000
YANG Geyan (resigned on 16 August 2010)	—	—	—	—	—	—
CHAN Nap Kee, Joseph	—	—	—	—	—	—
Dr. CHOW Pok Yu, Augustine	—	—	—	—	—	—
YANG Yongcheng	—	561,187	—	—	9,000	570,187
LI Hong (appointed on 3 September 2010)	—	133,539	—	—	4,000	137,539
Independent non-executive directors						
LIEW Swee Yean	18,750	—	—	—	—	18,750
SIU Siu Ling, Robert	18,750	—	—	—	—	18,750
Dr. WONG Yun Kuen	18,750	—	—	—	—	18,750
ANDERSON Brian Ralph	18,750	—	—	—	—	18,750
Total for the period from 1 April 2010 to 31 December 2010	75,000	3,144,726	—	—	20,000	3,239,726

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Share-based payments	Retirement benefits scheme contributions	Total emoluments
	HK$	HK$	HK$	HK$	HK$	HK$
Executive directors						
WU Kam Hung (resigned on 7 August 2009)	—	41,935	—	—	2,097	44,032
YEAP Soon P, Jonathan	—	4,200,000	3,000,000	—	21,000	7,221,000
YANG Geyan	—	—	3,000,000	—	—	3,000,000
CHAN Nap Kee, Joseph	—	—	3,360,000	10,276,878	—	13,636,878
Dr. CHOW Pok Yu, Augustine	—	—	3,000,000	—	—	3,000,000
YANG Yongcheng	—	306,693	—	1,743,882	4,000	2,054,575
Independent non-executive directors						
LIEW Swee Yean	25,000	—	—	—	—	25,000
SIU Siu Ling, Robert	25,000	—	—	—	—	25,000
Dr. WONG Yun Kuen	25,000	—	—	—	—	25,000
ANDERSON Brian Ralph	25,000	—	—	424,905	—	449,905
Total for the year ended 31 March 2010	100,000	4,548,628	12,360,000	12,445,665	27,097	29,481,390

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

12. Directors' and Five Highest Paid Individuals' Emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

Other than the accrued discretionary bonus of HK$9,000,000 waived by three executive directors, there was no arrangement under which a director waived or agreed to waive any emoluments during the period (for the year ended 31 March 2010: HK$Nil).

Nil (for the year ended 31 March 2010: 26,181,750) options were granted to directors under the share option scheme during the period.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the period included two (for the year ended 31 March 2010: five) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (for the year ended 31 March 2010: Nil) individuals are set out below:

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Basic salaries, bonuses, allowances and benefits in kind	**1,485,217**	—
Retirement benefits scheme contributions	**26,000**	—
	1,511,217	—

The emoluments of five highest paid individuals (including directors) fell within the following bands:

	Period from 1 April 2010 to 31 December 2010	Year ended 31 March 2010
Nil to HK$1,000,000	**4**	—
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**—**	2
HK$7,000,001 to HK$7,500,000	**—**	1
HK$13,500,001 to HK$14,000,000	**—**	1
	5	5

During the period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

13. Dividend

No dividend has been paid or declared by the Company during the period (for the year ended 31 March 2010: HK$Nil).

14. (Loss)/Earnings Per Share

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

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
(Loss)/earnings		
Continuing and discontinued operations		
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	(31,835,032)	452,693,377
Net finance costs saving on conversion of convertible bonds outstanding	16,244,593	18,127,873
(Loss)/earnings for the purpose of calculating diluted (loss)/earnings per share	(15,590,439)	470,821,250
Continuing operations		
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share	(31,835,032)	457,651,902
Net finance costs saving on conversion of convertible bonds outstanding	16,244,593	18,127,873
(Loss)/earnings for the purpose of calculating diluted (loss)/earnings per share	(15,590,439)	475,779,775

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for the period from 1 April 2010 to 31 December 2010

14. (Loss)/Earnings Per Share *(Continued)*

	Period from 1 April 2010 to 31 December 2010	Year ended 31 March 2010
Number of shares		
Issued ordinary shares at beginning of the period/year	**2,005,675,000**	770,000,000
Effect of shares placed	**—**	142,684,932
Effect of conversion of convertible bonds	**—**	511,589,041
Effect of conversion of replacement convertible bonds	**86,475,782**	72,904,712
Effect of exercise of options	**1,248,805**	14,823,630
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**2,093,399,587**	1,512,002,315
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the end of the reporting period	**7,781,058**	11,838,998
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	**331,198,857**	285,050,332
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**2,432,379,502**	1,808,891,645

From discontinued operations

Basic loss per share from the discontinued operations is HK$Nil cents (for the year ended 31 March 2010: HK$0.33 cents) for the period from 1 April 2010 to 31 December 2010, based on the loss for the period from discontinued operations attributable to owners of the Company of HK$Nil (for the year ended 31 March 2010: HK$4,958,525) and the denominator used is the same as that detailed in the table above for basic loss per share.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

15. Retirement Benefit Schemes

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary established in the PRC are members of a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

16. Fixed Assets

	Buildings HK$	Leasehold improvements HK$	Plant and machinery HK$	Office equipment HK$	Furniture and fixtures HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
Cost								
At 1 April 2009	—	1,260,148	646,930	1,077,299	26,757	633,407	—	3,644,541
Additions	—	190,400	476,490	100,321	19,989	1,050,173	8,574,867	10,412,240
Written off	—	(29,475)	—	(99,019)	—	—	—	(128,494)
Acquisition of subsidiaries	237,552	—	626,315	344,547	—	2,206,606	19,703,141	23,118,161
Disposal of subsidiaries	—	(1,393,173)	(1,006,954)	(906,232)	(27,086)	(45,000)	—	(3,378,445)
Exchange differences	473	—	1,444	894	—	6,067	53,724	62,602
At 31 March 2010 and 1 April 2010	238,025	27,900	744,225	517,810	19,660	3,851,253	28,331,732	33,730,605
Additions	27,624,128	—	13,650,990	598,673	—	4,151	25,402,711	67,280,653
Disposals	—	—	—	(16,350)	—	(1,061,993)	—	(1,078,343)
Exchange differences	729,129	—	259,259	21,611	—	88,467	1,282,945	2,381,411
At 31 December 2010	28,591,282	27,900	14,654,474	1,121,744	19,660	2,881,878	55,017,388	102,314,326
Accumulated depreciation								
At 1 April 2009	—	1,075,322	646,930	702,408	23,282	128,390	—	2,576,332
Charges for the year	3,076	246,639	109,836	238,399	5,791	281,067	—	884,808
Written off	—	(29,475)	—	(18,153)	—	—	—	(47,628)
Disposal of subsidiaries	—	(1,285,511)	(735,934)	(837,086)	(24,168)	—	—	(2,882,699)
Exchange differences	4	—	32	59	—	127	—	222
At 31 March 2010 and 1 April 2010	3,080	6,975	20,864	85,627	4,905	409,584	—	531,035
Charges for the period	355,292	5,231	308,540	121,955	3,686	240,718	—	1,035,422
Disposals	—	—	—	(8,175)	—	(368,025)	—	(376,200)
Exchange differences	6,263	—	5,981	2,657	—	6,545	—	21,446
At 31 December 2010	364,635	12,206	335,385	202,064	8,591	288,822	—	1,211,703
Carrying amount								
At 31 December 2010	28,226,647	15,694	14,319,089	919,680	11,069	2,593,056	55,017,388	101,102,623
At 31 March 2010	234,945	20,925	723,361	432,183	14,755	3,441,669	28,331,732	33,199,570

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

17. Intangible Assets

	Mining rights HK$	Trademarks HK$	Total HK$
Cost			
At 1 April 2009	—	18,242,350	18,242,350
Acquisition of subsidiaries	3,100,335,594	—	3,100,335,594
Disposal of subsidiaries	—	(18,242,350)	(18,242,350)
Additions	220,099	—	220,099
Exchange differences	6,172,267	—	6,172,267
At 31 March 2010 and 1 April 2010	3,106,727,960	—	3,106,727,960
Exchange differences	92,290,136	—	92,290,136
At 31 December 2010	3,199,018,096	—	3,199,018,096
Accumulated amortisation and impairment			
At 1 April 2009	—	8,242,350	8,242,350
Disposal of subsidiaries	—	(8,242,350)	(8,242,350)
At 31 March 2010, 1 April 2010 and 31 December 2010	—	—	—
Carrying amount			
At 31 December 2010	3,199,018,096	—	3,199,018,096
At 31 March 2010	3,106,727,960	—	3,106,727,960

The Group's mining rights are the rights obtained by the Group for exploitation of a coal mine located in Inner Mongolia, the PRC. The major content of the coal mine is coking coal. The term of the mining rights of this coal mine is from August 2006 to August 2016. The mining rights are stated at cost less accumulated amortisation over the term of the mining rights. As the coal mine is still under construction and not yet available for exploitation, no amortisation of the mining rights is charged during the period/year.

At 31 December 2010, the carrying amount of intangible assets pledged as security for the Group's bank loan amounted to HK$3,199,018,096 (at 31 March 2010: HK$3,106,727,960).

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

18. Available-For-Sale Financial Assets

	At 31 December 2010 HK$	At 31 March 2010 HK$
Unlisted equity securities, at fair value	—	3,591,185

19. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group.

	Fair value adjustment of mining rights HK$	Decelerated tax depreciation HK$	Total HK$
At 1 April 2009	—	347,300	347,300
Charge to income statement for the year *(note 9)*	—	(3,949)	(3,949)
Disposal of subsidiaries	—	(343,351)	(343,351)
Step acquisition of a subsidiary	(771,887,860)	—	(771,887,860)
Exchange differences	(1,536,705)	—	(1,536,705)
At 31 March 2010 and 1 April 2010	(773,424,565)	—	(773,424,565)
Exchange differences	(22,975,767)	—	(22,975,767)
At 31 December 2010	(796,400,332)	—	(796,400,332)

20. Inventories

	At 31 December 2010 HK$	At 31 March 2010 HK$
Raw materials and consumable goods	142,171	88,540

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for the period from 1 April 2010 to 31 December 2010

21. Trade and Bills Receivables

	At 31 December 2010 HK$	At 31 March 2010 HK$
Trade receivables	**23,367,365**	5,793,531
Bills receivables	**7,203,187**	—
	30,570,552	5,793,531

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers.

An ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	At 31 December 2010 HK$	At 31 March 2010 HK$
0–30 days	**16,177,392**	4,366,637
31–60 days	**5,836,059**	944,761
61–90 days	**1,007,150**	266,164
Over 90 days	**346,764**	215,969
	23,367,365	5,793,531

As of 31 December 2010, trade receivables of HK$346,764 (at 31 March 2010: HK$Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	At 31 December 2010 HK$	At 31 March 2010 HK$
Up to 3 months	**202,524**	—
Over 3 months	**144,240**	—
	346,764	—

Trade receivables are denominated in RMB.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

22. Deposits, Prepayments and Other Receivables

	At 31 December 2010 HK$	At 31 March 2010 HK$
Deposits placed with a securities broker	**50,103,188**	—
Utilities and other deposits	**6,321,058**	9,919,305
Prepayments	**411,201**	86,814
Other receivables	**18,365,921**	9,628,051
	75,201,368	19,634,170

23. Bank and Cash Balances

As at 31 December 2010, the bank and cash balances of the Group denominated in RMB amounted to HK$153,470,076 (as at 31 March 2010: HK$286,278,500).

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. Other Payables and Accruals

	At 31 December 2010 HK$	At 31 March 2010 HK$
Due to directors	**—**	9,000,000
Due to a related company	**—**	9,877,749
Accruals	**1,394,846**	1,001,225
Other payables	**25,516,907**	12,069,913
	26,911,753	31,948,887

Amounts due to directors are bonuses payable to the directors as at 31 March 2010 and which have been waived by the directors during the period. Amounts due to directors/a related company are unsecured, interest-free and have no fixed repayment terms.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

25. Convertible Bonds

On 10 June 2008 the Group issued convertible bonds ("Bonds") with a nominal value of HK$770,000,000 comprising 770 Bonds of HK$1,000,000 each.

The Bonds mature on the fifth anniversary from the date of issue of the Bonds (the "Maturity Date"). Under the conditions of the Bonds, each Bond may be converted into a maximum of 1,000,000 new shares (each a "New Share") of the Company ("Conversion Cap"), subject to increase and adjustment in the manner stipulated in the conditions. If upon conversion of the Bond, the number of New Shares required to be issued by the Company would exceed the Conversion Cap, the Bond shall be converted only up to the Conversion Cap, and the unconverted amount of the Bond shall be redeemed by the Company in cash equal to 120% of the unconverted principal amount together with accrued interest ("Conversion Cap Payment"). Subject to the aforesaid, the bondholders have the right to convert the Bonds at any time prior to the Maturity Date into New Shares on and subject to the terms and conditions of the Bonds at the lower of either (a) HK$1.30 per New Share; or (b) 100% of the average of the three lowest closing prices for a share of the Company on the Stock Exchange, or if trading in the shares of the Company is suspended and there is no closing price at the Stock Exchange on a relevant day, the last traded price reported per share on such day, during the 20 trading days period prior to the date of issue of the conversion notice (the "Variable Conversion Price") save that the lowest Variable Conversion Price shall not be less than the nominal value of the shares of the Company (the "Conversion Price"); provided that no conversion right may be exercised, to the extent that following such exercise, a holder of the Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Code of Takeovers and Mergers of Hong Kong as in force from time to time ("Takeovers Code") as being the level for triggering a mandatory general offer). Subject to the Conversion Cap, the aggregate principal amount of the Bonds together with the accrued interest shall be automatically converted to New Shares on the Maturity Date at the then prevailing Conversion Price unless such conversion will result in a holder of the Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer). Interest of 1 per cent per annum is payable at the time of conversion and redemption of the Bonds. The Company is entitled to cancel and to redeem all the Bonds in whole at any point in time after the third anniversary of the date of issue of the Bonds prior to the Maturity Date at 135% of their principal amount together with accrued interest. Further details of the Bonds are set out in the circular of the Company dated 30 April 2008.

25. Convertible Bonds *(Continued)*

On 20 July 2009 the Company entered an agreement for variation of the terms and conditions of the Bonds ("Variation Agreement") with the bondholders. Under the Variation Agreement, the Company and the bondholders agreed that the conditions of the Bonds be amended in the following manner:

(1) If upon the conversion of the Bonds, Conversion Cap will be exceeded, the Company will be required to issue a convertible bond ("Replacement Bonds") to the converting bondholder in principal amount equal to the Conversion Cap Payment in satisfaction of its obligation to make the Conversion Cap Payment in cash. The Replacement Bonds shall be convertible into ordinary shares of the Company ("Shares") at a fixed conversion price on and subject to the terms and conditions agreed by the Company and the bondholders under the Variation Agreement;

(2) The Company shall have no right to require the early cancellation or redemption of any of the Bonds prior to the Maturity Date;

(3) The conversion price of the Bonds shall not be less than the floor price of HK$0.20 per Share (subject to adjustment if there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification); and

(4) Further amendments of editorial nature that are ancillary or consequential to the above, as stipulated in the Variation Agreement.

Further details of the Variation Agreement and Replacement Bonds are set out in the circular of the Company dated 17 August 2009.

During the year ended 31 March 2010, all Bonds were converted to the New Shares by the bondholders and the Replacement Bonds amounting to HK$516,052,428 with the face value of HK$426,680,000 were issued to the bondholders to satisfy the Conversion Cap Payment.

	HK$
Beginning of the year	634,542,149
Interest charged	11,630,895
Bonds converted and repaid during the year	
— by issue of 770,000,000 New Shares	(130,070,216)
— by issue of Replacement Bonds	(516,052,428)
— by cash	(50,400)
Liability component	—
Beginning of the year	73,920,000
Fair value loss for the year	207,015,056
Bonds converted during the year	(280,935,056)
Derivative component	—

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

25. Convertible Bonds *(Continued)*

The maturity date of the Replacement Bonds is same as the Bonds. The bondholders have the right to convert at any time from issue date up to Maturity Date into Shares at a fixed conversion price at HK$0.70 per Share. The outstanding principal amount of the Replacement Bonds together with the accrued interest (if not paid by cash on redemption at maturity or upon acceleration) shall be automatically converted to Shares upon Maturity Date unless such conversion will result a holder of the Replacement Bonds and parties acting in concert with it, taken together, will directly or indirectly control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or the public float of the shares of the Company will fall below the minimum public float requirements stipulated under the GEM Listing Rules. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion; or (ii) in cash at maturity. The Company has no right to require the early cancellation or redemption of any of the Replacement Bonds prior to the Maturity Date.

The Replacement Bonds have been split between the liability element and an equity component, as follows:

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Beginning of the period/year	**228,173,030**	—
Nominal value of Replacement Bonds issued	—	516,052,428
Equity component	—	(203,821,441)
Liability component at date of issue	—	312,230,987
Interest charged	**16,244,593**	18,127,873
Replacement Bonds converted and repaid during the period/year		
— by issue of 106,900,000 Shares (year ended 31 March 2010: 195,920,000)	**(58,194,725)**	(102,158,133)
— by cash	**(11,733)**	(27,697)
Liability component at the end of the period/year	**186,211,165**	228,173,030

The interest charged for the period is calculated by applying an average effective interest rate of 12.69 per cent to the liability component for the 9 months period.

The directors estimate the fair value of the liability component of the Replacement Bonds at 31 December 2010 to be approximately HK$189,023,000 (at 31 March 2010: HK$212,849,000). This fair value has been calculated by discounting the future cash flows at the market rate.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

26. Bank Loan

	At 31 December 2010 HK$	At 31 March 2010 HK$
Bank loan — secured *(note 33)*	**351,375,000**	341,238,000
The bank loan is repayable as follows:		
On demand or within one year	**5,856,250**	—
In the second year	**17,568,750**	5,687,300
In the third to fifth years inclusive	**234,250,000**	164,931,700
After five years	**93,700,000**	170,619,000
	351,375,000	341,238,000

The bank loan is denominated in RMB.

Bank loan is arranged at floating rate, thus exposing the Group to cash flow interest rate risks. The interest rate was 5.98% at 31 December 2010 (at 31 March 2010: 5.98%).

27. Share Capital

	Number of shares	Amount HK$
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 April 2009, 31 March 2010, 1 April 2010 and 31 December 2010	10,000,000,000	100,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 April 2009	770,000,000	7,700,000
Issue of shares for Bonds converted *(note 25)*	770,000,000	7,700,000
Issue of shares for Replacement Bonds converted *(note 25)*	195,920,000	1,959,200
Placement of shares *(note i)*	240,000,000	2,400,000
Issue of shares in exercise of share options *(note ii)*	29,755,000	297,550
At 31 March 2010 and 1 April 2010	2,005,675,000	20,056,750
Issue of shares for Replacement Bonds converted *(note 25)*	106,900,000	1,069,000
Issue of shares in exercise of share options *(note ii)*	1,808,750	18,088
At 31 December 2010	2,114,383,750	21,143,838

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

27. Share Capital *(Continued)*

Note:

(i) On 14 August 2009, the Company and Kingston Securities Limited entered into a placing agreement in respect of the placement of 240,000,000 Shares of HK$0.01 each to independent investors at a price of HK$0.70 per share. The placement was completed on 27 August 2009 and the premium on the issue of Shares, amounting to approximately HK$153,290,000, net of share issue expenses, was credited to the Company's share premium account.

(ii) During the period from 1 April 2010 to 31 December 2010, 1,808,750 Shares (year ended 31 March 2010: 29,755,000 Shares) were issued in relation to share options exercised by the employees, executives, officers, directors, business consultants of the Company and the Company's subsidiaries under the share option scheme of the Company at HK$0.69 and HK$0.762 (year ended 31 March 2010: HK$0.69, HK$0.394 and HK$0.762) for a total cash consideration of HK$1,339,389 (year ended 31 March 2010: HK$17,644,150). The excess of the subscription consideration received over the nominal values issued, amounted to HK$1,321,301 (year ended 31 March 2010: HK$17,346,600), was credited to the share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interests, retained profits and other reserves).

	At 31 December 2010 HK$	At 31 March 2010 HK$
Total debt	**537,586,165**	569,411,030
Less: cash and cash equivalents	**(242,442,501)**	(439,738,657)
Net debt	**295,143,664**	129,672,373
Adjusted capital	**2,486,766,495**	2,373,376,144
Debt-to-adjusted capital ratio	**12%**	5%

The increase in the debt-to-adjusted capital ratio during 2010 resulted primarily from the decrease of cash and cash equivalents.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

27. Share Capital *(Continued)*

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the Shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2010, 89.80% (at 31 March 2010: 69.70%) of the shares were in public hands.

28. Statement of Financial Position of The Company

	At 31 December 2010 HK$	At 31 March 2010 HK$
Fixed assets	**80,571**	460,673
Investments in subsidiaries	**32**	23
Prepayments and other receivables	**61,731,168**	14,857,351
Amounts due from subsidiaries	**989,081,580**	1,006,881,572
Bank and cash balances	**84,789,015**	141,476,176
Accruals	**(911,078)**	(9,803,403)
Amount due to a subsidiary	**(16)**	(8)
Convertible bonds	**(186,211,165)**	(228,173,030)
NET ASSETS	**948,560,107**	925,699,354
Share capital	**21,143,838**	20,056,750
Reserves *(note 29(b))*	**927,416,269**	905,642,604
TOTAL EQUITY	**948,560,107**	925,699,354

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium *(note(c)(i))* HK$	**Share-based payment reserve** *(note (c)(iii))* HK$	**Convertible bonds reserve** *(note 3(m))* HK$	**Retained profits/ (accumulated losses)** HK$	**Total** HK$
At 1 April 2009	142,936,387	12,980,794	—	134,700,525	290,617,706
Loss for the year	—	—	—	(279,298,610)	(279,298,610)
Placement of shares	165,600,000	—	—	—	165,600,000
Issue expenses for placement of shares	(12,310,000)	—	—	—	(12,310,000)
Issue of shares on exercise of share options	24,428,259	(7,081,659)	—	—	17,346,600
Share-based payments	—	16,361,262	—	—	16,361,262
Share options forfeited	—	(16,276)	—	16,276	—
Issue of shares for Bonds converted	403,305,272	—	—	—	403,305,272
Recognition of equity component of Replacement Bonds issued	—	—	203,821,441	—	203,821,441
Issue of shares for Replacement Bonds converted	165,467,588	—	(65,268,655)	—	100,198,933
At 31 March 2010 and 1 April 2010	889,427,506	22,244,121	138,552,786	(144,581,809)	905,642,604
Loss for the period	—	—	—	(46,174,654)	(46,174,654)
Issue of shares on exercise of share options	1,875,846	(554,545)	—	—	1,321,301
Share-based payments	—	9,501,293	—	—	9,501,293
Share options forfeited	—	(2,380,648)	—	2,380,648	—
Issue of shares for Replacement Bonds converted	91,877,184	—	(34,751,459)	—	57,125,725
At 31 December 2010	983,180,536	28,810,221	103,801,327	(188,375,815)	927,416,269

29. Reserves *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Foreign currency translation reserve

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

(iii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and consultants of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(p) to the financial statements.

30. Share-Based Payments

Equity-settled share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 9 December 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

30. Share-Based Payments *(Continued)*

Equity-settled share option scheme *(Continued)*

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

	Date of grant	**Exercise period**	**Exercise price**
			HK$
2008	19 February 2008	19 February 2008–18 February 2011	0.690
2009A	24 June 2008	24 June 2008–23 June 2011	0.780
2009B	8 January 2009	8 January 2009–7 January 2012	0.394
2010A	11 August 2009	11 August 2009–10 August 2012	0.762
2010B	18 November 2009	18 November 2009–17 November 2012	1.184
2010C	9 February 2010	9 February 2010–8 February 2013	1.078
2010D	18 October 2010	18 October 2010–17 October 2013	0.560

If the options remain unexercised after a period of 3 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

30. Share-Based Payments *(Continued)*

Equity-settled share option scheme *(Continued)*

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

	Period from 1 April 2010 to 31 December 2010		Year ended 31 March 2010	
	Number of share options '000	Weighted average exercise price HK$	Number of share options '000	Weighted average exercise price HK$
Outstanding at the beginning of the period/year	**59,916**	**0.83**	53,005	0.60
Granted during the period/year	**42,288**	**0.56**	36,726	0.97
Exercise during the period/year	**(1,808)**	**0.59**	(29,755)	0.59
Forfeited during the period/year	**(7,538)**	**0.78**	(60)	0.78
Outstanding at the end of the period/year	**92,858**	**0.72**	59,916	0.83
Exercisable at the end of the period/year	**92,858**	**0.72**	59,916	0.83

The options outstanding at the end of the period have a weighted average remaining contractual life of 2.65 years (at 31 March 2010: 2.2 years) and the exercise prices ranged from HK$0.394 to HK$1.184 (at 31 March 2010: HK$0.394 to HK$1.184). For the period from 1 April 2010 to 31 December 2010, options were granted on 18 October 2010 to other eligible participants. The fair value of the share options granted to other participants was measured by reference to the fair value of share options granted instead of services rendered because the fair value of the services received cannot be estimated reliably by reference to any available market value. The estimated fair values of the options on that date is HK$9,501,293. For the year ended 31 March 2010, options were granted on 11 August 2009, 18 November 2009 and 9 February 2010. The estimated fair values of the options on those dates are HK$4,595,064, HK$1,489,320 and HK$10,276,878 respectively.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

30. Share-Based Payments *(Continued)*

Equity-settled share option scheme *(Continued)*

These fair values were calculated using the Binomial model and Trinomial model. The input into the models were as follows:

	2010A	2010B	2010C	2010D
Valuation model	Binomial model	Trinomial model	Trinomial model	Binomial model
Weighted average share price	HK$0.710	HK$1.120	HK$1.040	HK$0.560
Weighted average exercise price	HK$0.762	HK$1.184	HK$1.078	HK$0.560
Expected volatility	85.43%	85.84%	87.194%	69.905%
Expected life	3 years	3 years	3 years	3 years
Risk free rate	1.214%	0.732%	0.930%	0.650%
Expected dividend yield	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Company over 3 years for 2010A, 2010B, 2010C and 2010D. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

31. Subsidiaries

Particulars of subsidiaries as at 31 December 2010 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital/ registered capital	Attributable equity interest	Principal activities
Directly held				
Time Creation Group Limited	British Virgin Islands	US$1 Ordinary	100%	Dormant
High Focus Group Limited	British Virgin Islands	US$1 Ordinary	100%	Investment holding
Coastal Kingfold Finance Limited	British Virgin Islands	US$1 Ordinary	100%	Investment holding
West Glory Development Limited	British Virgin Islands	US$1 Ordinary	100%	Not yet commenced business
Indirectly held				
Imare Company Limited	British Virgin Islands	US$50,000 Ordinary	100%	Investment holding
Joy Harvest Holdings Limited	Hong Kong	HK$1,000 Ordinary	100%	Investment holding
內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Limited) ("Mengxi Minerals")	PRC	RMB160,000,000	70%	Exploitation of coal and coal processing

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

32. Notes to Consolidated Statement of Cash Flows

(a) Acquisition of subsidiaries

On 7 July 2009, the Group entered into an agreement to acquire a further 21% equity interest in Mengxi Minerals for a cash consideration of RMB16,800,000. The acquisition was completed on 10 December 2009.

The fair value of the identifiable assets and liabilities of Mengxi Minerals acquired as at its date of acquisition is as follows:

	Carrying amount HK$	**Fair value adjustment** HK$	**Fair value** HK$
Net assets acquired:			
Fixed assets	23,118,161	—	23,118,161
Intangible assets	12,784,156	3,087,551,438	3,100,335,594
Inventories	498,470	—	498,470
Deposits paid for construction in progress	148,536,610	—	148,536,610
Deposits, prepayments and other receivables	4,897,714	—	4,897,714
Bank and cash balances	186,062,773	—	186,062,773
Other payables and accruals	(22,123,010)	—	(22,123,010)
Due to a fellow subsidiary	(90,514,470)	—	(90,514,470)
Deposits received and receipts in advance	(6,047,210)	—	(6,047,210)
Deferred tax liabilities	—	(771,887,860)	(771,887,860)
Bank loan	(227,040,000)	—	(227,040,000)
			2,345,836,772
Less: Fair value of investment in an associate			(1,149,460,018)
Non-controlling interests			(703,751,032)
Goodwill			(124,671,293)
			367,954,429
Excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary			(348,159,729)
Satisfied by:			
Cash			19,794,700
Net cash inflow arising on acquisition:			
Cash consideration paid			(19,794,700)
Cash and cash equivalents acquired			186,062,773
			166,268,073

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

32. Notes to Consolidated Statement of Cash Flows *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

Mengxi Minerals contributed HK$14,352,252 and HK$4,060,119 losses to the Group's turnover and profit before tax respectively, for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 April 2009, total Group turnover for the year ended 31 March 2010 would have been HK$68,780,776, and profit for the year would have been HK$448,683,736. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is intended to be a projection of future results.

As the vendor would like to obtain early cash flow for implementing their investment strategy for other business, hence they are willing to lower the consideration for the disposal of their equity interest holding in Mengxi Minerals to an amount determined based on the PRC audited net assets value of Mengxi Minerals as at 31 December 2008 and 21% equity interest of the registered capital of Mengxi Minerals, which is lower than the fair value of net assets of Mengxi Minerals as at the acquisition date.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

32. Notes to Consolidated Statement of Cash Flows *(Continued)*

(b) Disposal of subsidiaries

As referred to in note 10 to the financial statements, on 30 November 2009 and 31 March 2010 the Group discontinued its trading of printing accessories and batteries business and its provision of repairs and maintenance services to motor vehicles, operating car accessories shop, car washing, cleaning and beauty services business at the time of the disposal of its subsidiaries, Global On-Line and Long Capital respectively.

Net assets at the date of disposal were as follows:

	Global On-Line
	HK$
Fixed assets	3,352
Trade receivables	33,023
Bank and cash balances	1,990,544
Shareholders' loan	(2,273,875)
Net liabilities disposed of	(246,956)
Direct cost to the disposal	290,580
Waiver of loan	1,000,000
Loss on disposal of subsidiaries	(793,624)
Cash consideration received	250,000
Net cash outflow arising on disposal:	
Cash consideration received	250,000
Cash paid for direct cost	(290,580)
Cash and cash equivalents disposed of	(1,990,544)
	(2,031,124)

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

32. Notes to Consolidated Statement of Cash Flows *(Continued)*

(b) Disposal of subsidiaries *(Continued)*

	Long Capital
	HK$
Fixed assets	492,394
Intangibles assets	10,000,000
Deferred tax assets	343,351
Inventories	361,091
Trade receivables	751,946
Deposits, prepayments and other receivables	3,034,488
Pledged bank deposits	1,502,637
Bank and cash balances	12,454,547
Trade payables	(542,455)
Other payables and accruals	(3,318,372)
Deposits received	(4,606,529)
Current tax liabilities	(325,293)
Net assets disposed of	20,147,805
Non-controlling interests	(9,872,424)
Direct cost to the disposal	2,888,274
Loss on disposal of subsidiaries	(9,572,470)
Represented by the fair value of available-for-sale financial asset at the date of disposal	3,591,185
Net cash outflow arising on disposal:	
Cash paid for direct cost	(2,888,274)
Cash and cash equivalents disposed of	(12,454,547)
	(15,342,821)

33. Banking Facilities

At 31 December 2010, the Group has been granted banking facilities totaling HK$351,375,000 (at 31 March 2010: HK$341,238,000) of which HK$351,375,000 (at 31 March 2010: HK$341,238,000) were utilised. The facilities were secured by pledge of the mining rights held by the Group and the entire equity interest of a subsidiary held by the Group and the non-controlling shareholder.

34. Contingent Liabilities

At 31 December 2010, the Group did not have any significant contingent liabilities.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

35. Capital Commitments

The Group's capital commitments at the end of the reporting period are as follows:

	At 31 December 2010 HK$	At 31 March 2010 HK$
Fixed assets		
Contracted but not provided for	**35,202,767**	118,960,704

36. Lease Commitments

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2010 HK$	At 31 March 2010 HK$
Within one year	**57,500**	264,500

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for an average term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

37. Related Party Transactions

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had no material transactions with its related parties during the period/year.

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Interest on Bonds and Convertible Bonds charged by Grand Pacific Source Limited, Pacific Top Holding Limited, Profit Raider Investments Limited and Glimmer Stone Investments Limited	**15,251,058**	17,107,622

Grand Pacific Source Limited, Pacific Top Holding Limited and Profit Raider Investments Limited are shareholders of the Company and are beneficially owned by ZHANG Gaobo and ZHANG Zhi Ping. Glimmer Stone Investments Limited are beneficially owned by ZHANG Gaobo and ZHANG Zhi Ping.

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

38. Segment Information

The Group has a sole reportable segment which is exploitation of coal for the period from 1 April 2010 to 31 December 2010.

The Group had three reportable segments which were trading of printing accessories and batteries, provision of car repairs and beauty services and exploitation of coal for the year ended 31 March 2010 and of which trading of printing accessories and batteries and provision of car repairs and beauty services were discontinued in the year ended 31 March 2010.

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.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include dividend income and gains or losses from investments and derivative instruments. Segment assets do not include amounts due from related parties, investments and derivative instruments. Segment liabilities do not include convertible loans and derivative instruments. Segment non-current assets do not include financial instruments and deferred tax assets.

Information about reportable segment profit or loss, assets and liabilities:

	Discontinued operations			
	Provision of car repairs and beauty services HK$	Trading of printing accessories and batteries HK$	Exploitation of coal HK$	Total HK$
Year ended 31 March 2010				
Revenue from external customers	47,367,547	1,085,775	14,352,252	62,805,574
Segment profit/(loss)	3,387,331	(73,844)	(4,060,119)	(746,632)
Interest revenue	23,974	350	19,755	44,079
Depreciation	513,558	1,380	148,039	662,977
Share of losses of an associate	—	—	(13,576,930)	(13,576,930)
Income tax expense	554,087	—	386,576	940,663
Additions to segment non-current assets	622,730	—	16,441,830	17,064,560
As at 31 March 2010				
Segment assets	—	—	3,591,384,631	3,591,384,631
Segment liabilities	—	—	1,152,875,873	1,152,875,873

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

38. Segment Information *(Continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	Year ended 31 March 2010 HK$
Revenue	
Total revenue of reportable segments	62,805,574
Elimination of discontinued operations	(48,453,322)
Consolidated revenue	14,352,252
Profit or loss	
Total profit or loss of reportable segments	(746,632)
Fair value gain on step acquisition of a subsidiary	401,620,781
Excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of a subsidiary	348,159,729
Interest on convertible bonds	(29,758,768)
Fair value loss on derivative component of convertible bonds	(207,015,056)
Share of losses of an associate	(13,576,930)
Unallocated corporate income	136,635
Unallocated corporate expense	(49,195,360)
Elimination of discontinued operations	7,052,607
Consolidated profit before tax from continuing operations	456,677,006

	At 31 March 2010 HK$
Assets	
Total assets of reportable segments	3,591,384,631
Available-for-sale financial assets	3,591,185
Unallocated corporate assets	169,322,344
Consolidated total assets	3,764,298,160
Liabilities	
Total liabilities of reportable segments	1,152,875,873
Convertible bonds	237,173,030
Unallocated corporate liabilities	873,113
Consolidated total liabilities	1,390,922,016

Notes to the Financial Statements

for the period from 1 April 2010 to 31 December 2010

38. Segment Information *(Continued)*

Geographical information:

Revenue

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Hong Kong	—	47,367,547
United States	—	1,085,775
The PRC	59,618,521	14,352,252
Discontinued operations	—	(48,453,322)
Consolidated total	59,618,521	14,352,252

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

Revenue from major customers:

	Period from 1 April 2010 to 31 December 2010 HK$	Year ended 31 March 2010 HK$
Exploitation of coal:		
Customer a	11,861,886	—
Customer b	10,837,605	—
Customer c	8,331,264	—

Non-current assets other than available-for-sale financial assets

	At 31 December 2010 HK$	At 31 March 2010 HK$
Hong Kong	80,571	460,673
The PRC	3,521,748,073	3,294,991,404
Consolidated total	3,521,828,644	3,295,452,077

39. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 February 2011.