# 昊天能源集團有限公司

# HAO TIAN RESOURCES GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability) (Stock code: 00474)

Annual Report 2011/12

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Ma Lishan *(Chairman)*
Mr. Mak Yiu Tong (resigned on 31 May 2012)
Mr. Xu Hai Ying (appointed on 23 February 2012)
Mr. Fung Ka Pun *(Vice-Chairman)*
(resigned on 21 September 2011)
Mr. Ng Cheuk Fan, Keith
(resigned on 21 September 2011)

## NON EXECUTIVE DIRECTORS

Ms. Fung Wing Ki, Vicky
(resigned on 21 September 2011)
Mr. Xu Hai Ying (appointed on 1 January 2012)
(re-designated on 23 February 2012)

## INDEPENDENT NON EXECUTIVE DIRECTORS

Mr. Chan Ming Sun, Jonathan
(appointed on 29 March 2012)
Mr. Zhu Yongguang
Mr. Ma Lin (appointed on 1 January 2012)
Dr. Zhiliang Ou, *J.P.* (appointed on 11 June 2012)
Dr. Tam Hok Lam, Tommy, *J.P.*
(resigned on 29 March 2012)
Mr. Chan William (resigned on 1 January 2012)

## AUDIT COMMITTEE

Mr. Chan Ming Sun, Jonathan
*(Chairman of Committee)*
Mr. Zhu Yongguang
Mr. Ma Lin
Dr. Zhiliang Ou, *J.P.*

## EXECUTIVE COMMITTEE

Mr. Ma Lishan *(Chairman of Committee)*
Mr. Xu Hai Ying

## REMUNERATION COMMITTEE

Mr. Chan Ming Sun, Jonathan
*(Chairman of Committee)*
Mr. Ma Lishan
Mr. Zhu Yongguang
Dr. Zhiliang Ou, *J.P.*

## NOMINATION COMMITTEE

Mr. Ma Lishan *(Chairman of Committee)*
Mr. Chan Ming Sun, Jonathan
Mr. Zhu Yongguang
Dr. Zhiliang Ou, *J.P.*

## COMPANY SECRETARY

Mr. Fok Chi Tak *(FCPA, FCCA, FCS, FCIS)*

## LEGAL ADVISERS

Troutman Sanders
34/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

Guantao Law Firm
17/F, Tower 2
Ying Tai Center
No. 28, Finance Street
Beijing 100140, China

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

# Corporate Information

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, Grand Cayman KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 4917-4932, 49/F., Sun Hung Kai Centre,
30 Harbour Road, Wan Chai,
Hong Kong

## WEBSITE

www.haotianhk.com

# Financial Highlights

| For the years ended 31 March | 2012 | 2011 |
|---|---|---|
| **Operating Results** | **HK$'000** | HK$'000 |
| Revenue | **143,079** | 122,099 |
| Gross profit | **36,721** | 19,027 |
| Net loss | **(378,458)** | (96,646) |
| **Per Share Data** | **HK cents** | HK cents |
| Loss per share – basic and diluted | **(12.98)** | (4.80) |
| Net asset per share | **69.63** | 74.64 |
| **Financial Position** | **HK$'000** | HK$'000 |
| Total assets | **4,314,591** | 2,744,900 |
| Net assets | **2,734,561** | 1,799,835 |
| **Financial Ratios** | **%** | % |
| Gross profit to revenue | **25.7** | 15.6 |
| Debt to equity | **23.3** | 12.1 |

# Directors, Senior Management and Staff

## DIRECTORS

### Executive Directors

**Mr. Ma Lishan**, aged 60, is the Chairman and Executive Director of the Company since September 2010. Mr. Ma was the Chief Executive Officer of the Company from September 2010 to February 2012. Mr. Ma graduated from the Beijing Foreign Studies University in 1975. During his course of employment, he had participated in various study and research programmes organised by the United Nations, the State Economic and Trade Commission (currently known as the Ministry of Commerce), and the National School of Administration. He also took part in seminars organised by the State ministries and commissions for corporate leaders of certain major state enterprises. Mr. Ma has held various managerial positions such as chairman, executive directors in COFCO and certain of its subsidiaries. Mr. Ma is one of the earliest pioneers in the processing of edible oil essence and wine investment industries. Mr. Ma had extensive experience in corporate operation and management. Mr. Ma served as an executive director of China Foods Limited (中國食品有限公司) (formerly known as "China Foods Holdings Limited (中國食品發展集團有限公司)" and "COFCO International Limited (中國糧油國際有限公司)"), whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") since January 1996. In particular, from May 1997 to June 2003, Mr. Ma served as the managing director of China Foods Limited and was the managing director of COFCO International Limited from April 2002 to June 2003. In 2000, Mr. Ma served as the deputy general manager of China Foods Import and Export (Group) Co., Ltd. (中國糧油食品進出口(集團)有限公司). Mr. Ma was an executive director of Sino Resources Limited (listed on the Main Board of the Stock Exchange) from 7 June 2008 to 16 January 2009. Currently, he serves as an independent non-executive director of Silver Base Group Holdings Limited (Stock Code: 886) and Sunac China Holdings Limited (Stock Code: 1918), both of which are listed on the Stock Exchange. At present, Mr. Ma is a director of various members of the Group. He is also a director of Real Power Holdings Limited and TRXY Development (HK) Limited, both of which are substantial shareholders of the Company.

**Mr. Xu Hai Ying**, aged 58, was appointed as Non-executive Director of the Company in January 2012 and has been re-designated to an Executive Director of the Company in February 2012. Mr. Xu is the senior technical consultant and senior manager of 中國節能環保集團有限公司 (China Jieneng Huangbao Group Company Limited*), whose principal business is the development of energy conservation technologies, clean and new energy, and energy infrastructure construction. Mr. Xu has substantial management experience and has been the manager of the representative offices of Wallem & Company Limited (華林船務集團有限公司) in Shanghai and Tianjin, People's Republic of China ("PRC") and the chief representative of the Shanghai representative office of Hong Kong Maritime Company Limited (香港海運有限公司) and has served other management positions.

# Directors, Senior Management and Staff

## Independent Non-Executive Directors

**Mr. Chan Ming Sun, Jonathan**, aged 40, was appointed as an Independent Non-executive Director of the Company in March 2012. Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Computer Information Systems. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Certified Public Accountants, Australia. Mr. Chan has 15 years of experience in auditing, accounting, investment and financial management. Mr. Chan is currently an associate director of Go-To-Asia Investment Limited. Mr. Chan is also an independent non-executive director of Shenyang Public Utility Holdings Company Limited (Stock code: 747), whose securities are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and of China Data Broadcasting Holdings Limited (Stock code: 8016), whose securities are listed on the growth enterprise market of the Stock Exchange.

**Mr. Zhu Yongguang**, aged 67, was appointed as an Independent Non-executive Director of the Company in August 2010. Mr. Zhu is a senior economist. Mr. Zhu graduated from Wuhan School of River Transportation in 1965 majoring in navigation. Since 1984, Mr. Zhu has been the Chief of Production Scheduling Division of Oceanic Administration under the Ministry of Communications of the People's Republic of China ("PRC"), the Chief of Integrated Transport Division of the Air Transport Regulation Department under the Ministry of Communications of the PRC, and from 1992 onwards, Mr. Zhu has been the Director General of Air Transport Regulation Department of the PRC and the Deputy Director General of Water and Transport Department of the PRC. From July 1998 to April 2007, Mr. Zhu served as the Director General of the Department of Restructuring, Laws and Regulations of the PRC. Currently, he serves as an independent non-executive director of China Shipping Development Company Limited (Stock Code: 1138).

**Mr. Ma Lin**, aged 58, was appointed as an Independent Non-executive Director of the Company in January 2012. Mr. Ma graduated from the Capital University of Economics and Business (首都經濟貿易大學) with a bachelor degree in economics in 1982. Mr. Ma has been an officer of the State Commission for Economic Restructuring* (國家經濟體制改革委員會) in the People's Republic of China ("PRC"). In 1988, Mr. Ma joined the State Administration of Taxation* (國家稅務總局) in PRC and served various important positions, including the Head of the Import and Export Tax Division* (進出口稅司司長) and the Head of Income Tax Division (所得稅司司長). Mr. Ma is now an independent non-executive director of Shenzhen Development Bank Co., Ltd., whose shares are listed and traded on the Shenzhen Stock Exchange (Stock Code: 000001) in PRC.

# Directors, Senior Management and Staff

**Dr. Zhiliang Ou, *J.P.***, aged 43, holds a Doctor of Philosophy degree in Civil & Resource Engineering from The University of Western Australia, Australia. He also holds two Bachelor of Engineering degrees in Structural Engineering & Engineering Management respectively from Tongji University (同濟大學) in China. Dr. Ou has 23 years professional engineering and management experience in oil & gas, mining and infrastructure industries both in Australia and China. He has been a senior staff member in the world's leading energy & resource firms including Kellogg Brown & Root (known as KBR Halliburton at that time), WorleyParsons Pty Ltd., as well as Sedgman Ltd., which is specialising in coal processing and handling plants. Dr. Ou participated in a number of key energy and resource projects around the world such as acting as the Lead Civil and Structural Engineer for BHP Billiton RGP6 Jimblebar iron ore project; Rio Tinto iron ore Dove Siding expansion project; Chevron Wheatstone Domgas LNG Pipeline project; Yemen LNG Project (in the Republic of Yemen) and Western Australia Dampier to Bunbury Natural Gas Pipeline (Stage 5B) project, etc. Dr. Ou also has extensive experience in China. He was the general manager for 福建省黎明建築工程公司 (Fujian Liming Construction Company*) from 1993 to 1997. He is currently a Guest Professor for Inner Mongolia University (內蒙古大學) and a Guest Professor for Inner Mongolia University of Science & Technology (內蒙古科技大學) in China. Dr. Ou was appointed as a Justice of Peace in 2007 by the Governor of the State of Western Australia. He was a council member of the Royal Association of Justices, Western Australia Fremantle Branch in 2007 to 2008 as well as 2010 to 2011. Dr. Ou is a member of The Institution of Engineers, Australia. Dr. Ou was appointed as an Independent Non-executive Director of the Company on 11 June 2012.

## CHIEF EXECUTIVE OFFICER

**Ms. Li Shao Yu**, aged 42, was appointed as Chief Executive Officer in February 2012. Ms. Li is a director of various members of the Group, including 烏海市蒙港投資有限公司 (Wuhai City Menggang Industrial Development Co., Limited). Ms. Li is a substantial shareholder of the Company. She is not a Director of the Company.

## COMPANY SECRETARY

**Mr. Fok Chi Tak**, aged 37, is the Chief Financial Officer, the company secretary and the authorized representative of the Company since December 2010. Mr. Fok graduated from Oxford Brookes University in United Kingdom with a bachelor's degree in Accounting and Finance and the University of Hong Kong with a master's degree in Business Administration. Mr. Fok is a fellow member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Fok is also a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Mr. Fok has over 12 years of experience in auditing and financial management.

# Chairman's Statement

Dear Shareholders,

On behalf of Hao Tian Resources Group Limited ("Hao Tian Resources" or the "Group"), I hereby present our annual results for the year ended 31 March 2012.

The coal mining industry in the PRC has been experiencing a wake of unprecedented changes in 2011. The move by the PRC government to launch new policies on industry reorganization in Inner Mongolia has cast uncertainties over the future development of the Group as a foreign enterprise in the local market. As a result, the Group entered into a sale and purchase contract and obtained approval from the city government of Wuhai to dispose of the entire equity interest in Wuhai City Menggang Industrial Development Co., Ltd. located in Inner Mongolia Autonomous Region at a consideration of RMB1,503 million. Upon completion of the transaction, the Group will no longer hold any interest in Mine No.1, Mine No.4 and Tianyu coal washing plant in Wuhai City. The Group will generate a profit of approximately HK$237 million from the transaction. Meanwhile, through the transaction, the Group will also be able to settle all the debts owed by Wuhai City Menggang Industrial Development Co., Ltd., redeem all the convertible bonds we issued on the acquisition of Menggang and redeem the convertible bonds we issued on the acquisition of the Baicheng Mine in Xinjiang. Net cash of the Group after taxation and debts will increase to approximately HK$1 billion and gearing ratio of the Group will drop to zero.

The strategic development approach of the Group has been moving forward in line with "the 12th Five-Year Plan" of the PRC, and as a part of the approach, the Group has identified the Kubai Region in Xinjiang as its development base of the coking coal business. Among the four major coal mining bases in Xinjiang, the Kubai coal base is the only one that produces coking coal, the most precious coal resources. The Group input tremendous effort to conduct geological studies and data collection with respect to the coking coal resources in Xinjiang, and we are well prepared for any consolidation and acquisition of coking coal mines on a continual basis. During the year, the Group acquired the Baicheng Mine in Xinjiang Uygur Autonomous Region. The Baicheng Mine has aggregate coal resources of approximately 111 million tonnes which include coal reserves of 38 million tonnes as at 31 March 2012. The coking coal and gas coal it produces are primarily used in the production of coke and steel.

"The 12th Five-Year Plan" of the PRC highlighted the importance of accelerated urbanization, and there will certainly be increasing number of infrastructure projects in various cities in phase with such policies. The planned enhancement in production of the steel industry in Xinjiang during "the 12th Five-Year Plan" from 10 million tonnes to approximately 24-30 million tonnes will significantly increase the demand for quality coking coal and coke, and that is going to push coking coal and coke prices higher.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all shareholders for their great support and trust, and to our directors, management and staff for their invaluable contribution to the Group during the past year.

**Ma Lishan**
*Chairman*
Hong Kong, 22 June 2012

# Management Discussion and Analysis

## INDUSTRY REVIEW

During 2011, despite the slowdown in GDP growth in the PRC, the coal mining industry were still able to gather growth momentum due to the buoyant market demand, with the production of crude steel reaching 683 million tonnes, representing a year-on-year growth of 8.9%. The steel sector's demand for quality coking coal will rise significantly after series of optimization and technical improvement. Despite the curb, though indirectly, in coking coal prices due to the fall in demands from the real estate sector, increased fixed investment in the establishment of the PRC's railway system shall provide support to coking coal prices, and alongside with the gradual upward movement in steel prices this year, coking coal prices are on the track of a steady upward movement.

## BUSINESS AND FINANCIAL REVIEW

### Coal Mining Business

On 7 September 2011, the Group has executed a sales and purchase agreement for the disposal of the entire equity interest in Wuhai City Menggang at a total consideration of RMB1.503 billion (equivalent to approximately HK$1,845,083,000). Wuhai City Menggang held the entire equity interest in Mine No.1 and No.4 and Tianyu coal washing plant through Tianyu Gongmao and Tianyu Coal respectively. On 17 May 2012, the Group has completed the registration of transfer of the entire equity interests of Wuhai City Menggang to the Purchaser with SAIC. Accordingly, during the year, no production was recorded from the coal mining business in Wuhai City, Inner Mongolia.

The Group has successfully acquired the Baicheng coal mine in Xinjiang Uygur Autonomous Region on 15 June 2011 and has then resumed the preparatory work for production. However, the relevant PRC governmental authorities have issued notices to Baicheng coal mine in July 2011 to require it to suspend and rectify its production activities for the sake of addressing certain safety issues, including, inter alia, the implementation of measures regarding gas level in Baicheng coal mine and the inadequacies of its ventilation system. The Company has rectified the safety issues of Baicheng coal mine in response to the requests of the PRC governmental authorities. The improvement of ventilation system was inspected by the relevant PRC governmental authorities in mid-November 2011, and Baicheng coal mine has resumed production in late December 2011. Moreover, new mining shafts with an annual production capacity of 900,000 tonnes are still pending for the approval from the government of the Xinjiang Autonomous Region. During the year, the production of Baicheng coal mine was approximately 13,000 tonnes, and the gain from the sale of raw coal from continuing operation was approximately RMB2,357,000 (equivalent to approximately HK$2,861,000).

# Management Discussion and Analysis

## Packaging Box Business

The global economic recovery drove the demand for high-end consumer good's plastic boxes and paper boxes. However, the Euro-zone debt crisis reduced the growth momentum in the second half of the year. Accordingly, the Group's packaging segment revenue increased by 14.8% to HK$140.2 million (2011: HK$122.1 million) as compared with last year. The gross profit margin has improved significantly to approximately 25.2% (2011: 15.6%) while the gross profit was increased to approximately HK$35.3 million (2011: HK$19.0 million) as a result of increased product sales and tightened control on production cost. As such, the segment result was turnaround profitability of which approximately HK$7.8 million was recorded when compared with loss of approximately HK$8.6 million for the last year.

## Other Income, Gain and Loss, and Change in Fair Value of Investments Held for Trading

For the year ended 31 March 2012, the Group recorded a total net loss from continuing operations in other income, gain and loss and change in fair value of investments held for trading of approximately HK$0.4 million (2011: HK$0.8 million). The loss was mainly attributable to (i) the net loss from foreign exchange, (ii) loss on disposal of available-for-sale investments, and (iii) impairment loss on available-for-sale investments.

## Change in Fair Value of Derivative Financial Instruments

For the year ended 31 March 2012, from continuing operations, the Group recorded a net non-operating income of approximately HK$180.8 million arising from fair value adjustment in the embedded derivatives of convertible notes issued by the Company (2011: HK$6.1 million).

## Distribution and Selling Costs

For the year ended 31 March 2012, distribution and selling costs from continuing operations were approximately HK$3.5 million (2011: HK$4.2 million), representing a decrease of approximately HK$0.7 million or 16.7% as compared with last year. The decrease was due to the reduction in transportation cost as the packing box plant has been moved to Dongguan in 2010.

## Administrative Expenses

For the year ended 31 March 2012, administrative expenses from continuing operations were approximately HK$74.2 million (2011: HK$63.0 million), representing an increase of approximately HK$11.2 million or 17.8% as compared with last year. The increase was mainly due to (i) non-cash share based payments expenses arising from the amortisation of the granted share options to eligible participants by the Company; and (ii) the inclusion of administrative expense from the Venture Path Group, which the acquisition was completed on 15 June 2011.

# Management Discussion and Analysis

## Loss on Redemption of Convertible Note/Re-measurement of Liability Component of Convertible Notes

For the year ended 31 March 2012, the Group recorded a loss of approximately HK$426.1 million on loss on redemption of convertible note/re-measurement of liability component of convertible notes (2011: Nil) as a result of (i) the Group will settle the entire outstanding amount of convertible notes by proceeds obtained from the Proposed Disposal of the Menggang Group and it is represented the difference between the carrying value of the liability component of convertible notes and its redemption amount; and (ii) debt extinguishment loss of redemption of convertible note.

## Other Expenses

For the year ended 31 March 2012, other expenses from continuing operations were approximately HK$19.1 million (2011: Nil) which represented legal and professional costs incurred for the acquisition of assets through purchase of subsidiaries and the Proposed Disposal of the Menggang Group as well as the wages, depreciation expense, consumables and other direct attributable costs incurred during the Suspension Period of the operation of the coal mine of Baicheng Wenzhou.

## Finance Costs

For the year ended 31 March 2012, finance costs from continuing operations were approximately HK$49.0 million (2011: HK$30.5 million), which were mainly attributable to the recognition of imputed interest expenses on the liability component of the convertible notes.

## Taxation

For the year ended 31 March 2012, the Group's income tax expense from continuing operations of approximately HK$4.0 million (2011: HK$0.4 million) representing the result of income tax expense from Hong Kong of approximately HK$2.0 million and other jurisdiction of approximately HK$2.0 million.

## Owner's Attributable Loss

For the year ended 31 March 2012, the Group recorded a loss of approximately HK$378.5 million (2011: HK$96.6 million). The basic and diluted loss per share was approximately HK12.98 cent (2011: HK4.8 cents). The increase was mainly due to the loss recognised on loss on redemption of convertible note/re-measurement of liability component of convertible notes.

# Management Discussion and Analysis

## LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group funds its operations from a combination of internal resources, equity fund raising and financial instruments. As at 31 March 2012, the Group had cash and cash equivalents of approximately HK$44.0 million (2011: HK$48.7 million). The Group's net current assets increased to approximately HK$1,032.4 million (2011: HK$62.7 million). Such increase was mainly due to the non-current assets of Menggang Group were classified as current assets as held for sale. Gearing ratio (a ratio of total borrowings to total assets) as at 31 March 2012 was approximately 14.8% (2011: 7.9%), such increase was mainly due to the new convertible bond issued on 15 June 2011 and the re-measurement of liability components of the convertible notes in reason of the Group will settle the entire outstanding amount of convertible notes by proceeds obtained from the Proposed Disposal of the Menggang Group.

The Group has pledged its leasehold land and buildings with carrying value of approximately HK$2.9 million (2011: HK$3.0 million) to secure the unutilised general banking facilities granted to the Group and no other assets pledged at the date of reporting.

## CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 March 2012, there were capital commitments of approximately HK$89.6 million (2011: HK$130.3 million) and HK$189.0 million (2011: HK$167.3 million) in respect of addition of property, plant and equipment contracted for but not provided in the consolidated financial statements and authorised but not contracted for respectively.

The Group had no material contingent liabilities as at the close of business on 31 March 2012.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's sales are denominated mainly in Hong Kong dollars ("HKD"), United States dollars ("USD") and Euro ("EUR"). The Group's purchases and expenses are mostly denominated in HKD and Renminbi ("RMB"), and some in EUR and USD. The Group has certain foreign currency bank balances, investments held for trading, available-for-sale investments and investment in foreign operations, which are exposed to foreign currency exchange risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

# Management Discussion and Analysis

## EMPLOYEE INFORMATION

As at 31 March 2012, the Group had a total of approximately 1,200 employees (2011: 1,650 employees) in the PRC, Hong Kong and France. The Group provides a mandatory provident fund scheme for its employees in Hong Kong and the state-managed retirement benefit schemes for its employees in the PRC and France. The Group's remuneration policies are formulated according to market practices, experiences, skills and performance of individual employee and will be reviewed every year.

The Group has also adopted a share option scheme. During the year, there were share options granted and a summary of the share option schemes of the Group is set out in note 40 to the consolidated financial statements.

## PURCHASE, SALES OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2012.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct of the Company for Directors' securities transactions. The Company has made specific enquiry to all Directors and all Directors confirmed that they have fully complied with the required standard set out in the Model Code for the year ended 31 March 2012.

## SIGNIFICANT INVESTMENT, MATERIALS ACQUISITIONS AND DISPOSALS

On 7 September 2011, the Group has entered into a sales and purchase agreement (the "Agreement") with an independent third party, Inner-Mongolia Shuangxin Resources Group Co., Ltd (the "Purchaser"). Pursuant to the Agreement, the Group has conditionally agreed to dispose the Menggang Group (the "Disposal Group") for a cash consideration of RMB1,503,000,000 (equivalent to approximately HK$1,845,083,000). In addition to the total consideration, the Purchaser is required to advance the Disposal Group of RMB300,000,000 (equivalent to approximately HK$365,190,000), which is used to repay the Disposal Group's existing indebtedness and current account with the Company and its subsidiaries before the completion of sale of the Disposal Group.

At the date of reporting, the disposal has been approved by the relevant PRC departments and the legal title has been changed.

# Management Discussion and Analysis

## ESTIMATED COAL RESOURCES AND RESERVES

The table below presents the estimated coal resources and reserves of our coal mine as of 31 March 2012.

| | Total coal resources *(million tonnes)* | Total coal reserves *(million tonnes)* |
|---|---|---|
| Mine of Baicheng Wenzhou as at 31 March 2012 | 111.30 | 38.00 |

Remarks:

1. Mine of Baicheng Wenzhou those Reserve and Resource estimates have taken into account the estimated coal reserves and resources of our coal mine as of 31 March 2012 prepared by Roma Oil and Mining Associates Limited ("ROMA"), an independent technical reviewer in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code").

2. There has been no material change in the estimated coal resources and reserves and of the Mine of Baicheng Wenzhou since the day of acquisition on 15 June 2011.

3. With regards to Mine #1 and Mine #4 in Inner-Mongolia, the total coal resource estimates are 27.98 Mt and 51.84 Mt as reported by ROMA based on JORC Code released on 20 January 2012 respectively. There was no production during the year.

   On 7 September 2011, the Group has entered into a sales and purchase agreement with an independent third party, Inner-Mongolia Shuangxin Resources Group Co., Ltd (the "Purchaser") and subsequent to the end of the reporting period, the legal title of its holding company, namely Wuhai City Menggang Industrial Development Co., Ltd, has been changed on 17 May 2012.

## FUTURE PROSPECT

Looking ahead, demands for coal from domestic market will continue to grow and the healthy growth in coal production capacity will maintain a balance between supply and demand. With the gradual increase in indicated reserves in Xinjiang and the commencement of operation of the railway system this year in Southern Xinjiang which spans for approximately 1,000 kilometers, it is expected that the coal production capacity and delivery of Kubai coal base will release on a step-by-step basis.

## DIVIDEND

The board of Directors does not recommend the payment of a dividend for the year ended 31 March 2012 (2011: Nil).

# Report of Directors

The Directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2012.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principal engaged in the development and exploitation of underground coking coal mine in PRC and manufacture and sale of quality plastic and paper boxes for luxury consumer goods. The principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements for the year ended 31 March 2012.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2012 are set out in the consolidated statement of comprehensive income for the year ended 31 March 2012 on page 34 of this annual report. No final dividend was recommended by the Directors for the year ended 31 March 2012 (2011: Nil).

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 March 2012, the Company's reserves available for distribution amounted to approximately HK$2,652,748,000. The distributable reserves include the Company's share premium reserve of approximately HK$2,819,303,000, which may be distributed subject to Section 34 of the Cayman Companies Law and the Articles of Association of the Company. Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT AND MINING RIGHTS

Details of the movements in the property, plant and equipment and mining rights of the Group are set out in notes 18 and 21 to the consolidated financial statements respectively for the year ended 31 March 2012.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 34 to the consolidated financial statements for the year ended 31 March 2012.

## WARRANT

On 10 June 2011, 436,488,000 warrants of the Company have been placed to independent placees at issue price of HK$0.015 per warrant at exercise price of HK$0.90 per share. The proceeds from the placing of the warrants was approximately HK$6,547,000. The exercise period is fifteen months from the issue date of the warrants so the last date to exercise of the subscription rights is on 9 September 2012.

# Report of Directors

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years ended 31 March 2012 is set out on page 122 of this annual report.

## PURCHASE, SALES OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2012.

## DIRECTORS

The Directors during the year ended 31 March 2012 and up to the date of this annual report were:

### Executive Directors:

Mr. Ma Lishan *(Chairman)*
Mr. Mak Yiu Tong (resigned on 31 May 2012)
Mr. Xu Hai Ying (appointed on 23 February 2012)
Mr. Fung Ka Pun (resigned on 21 September 2011)
Mr. Ng Cheuk Fan, Keith (resigned on 21 September 2011)

### Non-Executive Directors:

Ms. Fung Wing Ki, Vicky (resigned on 21 September 2011)
Mr. Xu Hai Ying (appointed on 1 January 2012 and re-designated on 23 February 2012)

### Independent Non-Executive Directors:

Mr. Chan Ming Sun Jonathan (appointed on 29 March 2012)
Mr. Zhu Yongguang
Mr. Ma Lin (appointed on 1 January 2012)
Dr. Zhiliang Ou, *J.P.* (appointed on 11 June 2012)
Dr. Tam Hok Lam, Tommy, *J.P.* (resigned on 29 March 2012)
Mr. Chan William (resigned on 1 January 2012)

According to the Company's Articles of Association, Mr. Zhu Yongguang, Mr. Xu Hai Ying, Mr. Chan Ming Sun Jonathan, Mr. Ma Lin and Dr. Zhiliang Ou, *J.P.* shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# Report of Directors

## DIRECTORS SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of two or three years, as the case requires. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with any company in the Group which is not determinable by the Group within one year without compensation (other than statutory compensation).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors are independent individuals.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2012, the interests of the Directors or their associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

### Long Positions in ordinary shares and underlying shares of the Company

| Name of Director | Capacity | Nature of Interest | Number of shares of the Company held | Number of underlying shares of the Company held | Total | Approximate percentage of total issued share capital |
|---|---|---|---|---|---|---|
| Ma Lishan | Interest of a controlled corporation | Corporate interest | 525,700,561 (Note 1) | 317,158,822 (Note 1) | | |
| | Beneficial owner | Personal interest | | 20,000,000 (Note 3) | 862,859,383 | 21.97% |

# Report of Directors

| Name of Director | Capacity | Nature of Interest | Number of shares of the Company held | Number of underlying shares of the Company held | Total | Approximate percentage of total issued share capital |
|---|---|---|---|---|---|---|
| Mak Yiu Tong | Beneficial owner | Personal interest | – | 2,000,000 (Note 3) | 2,000,000 | 0.05% |
| Li Shao Yu | Interest of controlled corporations | Corporate interest | 997,460,937 (Note 2) | 766,946,333 (Note 2) | 1,783,407,270 | 45.41% |
| | Beneficial owner | Personal interest | | 19,000,000 (Note 3) | | |

Notes:

1. Ma Lishan has beneficial interest in Real Power Holdings Limited, which is owned as to 25% by China Capital Group Limited and 75% by TRXY Development (HK) Limited. China Capital Group Limited is beneficially owned as to 40% by Ma Lishan. As at 31 March 2012, Real Power Holdings Limited held 525,700,561 shares in the Company, representing approximately 13.38% of the issued share capital of the Company. In addition, Real Power Holdings Limited was also interested in convertible notes issued by the Company on 25 January 2010 in the aggregate principal amount of US$36,007,762.08 which were convertible into 317,158,822 shares, representing approximately 8.08% of the issued share capital of the Company.

2. Li Shao Yu has controlling interest in Hao Tian Group Holdings Limited, which, in turn, has controlling interest in TRXY Development (HK) Limited and Tai Rong Xin Ye International Power Generation Inc. TRXY Development (HK) Limited has also controlling interest in Real Power Holdings Limited.

3. These interests represented the interests in underlying shares in respect of share options granted by the Company to these Directors as beneficial owners under the Share Option Scheme ("Post-Listing Scheme") adopted on 16 May 2006.

Other than as disclosed above, as at 31 March 2012, none of the Directors or their associates had any interests or short positions in any shares, underlying shares and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options are set out in note 40 to the consolidated financial statements.

# Report of Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2012, the following entities have interests or short positions of 5% or more in the shares and underlying shares of the Company which were recorded in the Register of Substantial Shareholders maintained under Section 336 of the SFO or had otherwise notified to the Company:

| Name | Number of shares of the Company held | Number of underlying shares of the Company held | Capacity | Total | Approximate percentage of total issued share capital |
|---|---|---|---|---|---|
| TRXY Development (HK) Limited | 221,307,435 | 114,722,577 (Note 1) | Beneficial owner | 1,178,889,395 | 30.02% |
| | 525,700,561 (Note 2) | 317,158,822 (Note 2) | Interest of a controlled corporation | | |
| Real Power Holdings Limited | 525,700,561 | 317,158,822 (Note 2) | Beneficial owner | 842,859,383 | 21.46% |
| Tai Rong Xin Ye International Power Generation Inc. | 250,452,941 | 335,064,934 (Note 3) | Beneficial owner | 585,517,875 | 14.91% |
| Hao Tian Group Holdings Limited | 997,460,937 | 766,946,333 | Interest of controlled corporations | 1,764,407,270 (Note 3) | 44.92% |
| Atlantis Capital Holdings Limited | 429,000,000 | – | Beneficial owner | 429,000,000 (Note 4) | 10.92% |
| Liu Yang | 429,000,000 | – | Interest of a controlled corporation | 429,000,000 (Note 4) | 10.92% |

# Report of Directors

| Name | Number of shares of the Company held | Number of underlying shares of the Company held | Capacity | Total | Approximate percentage of total issued share capital |
|---|---|---|---|---|---|
| Central Huijin Investment Ltd | 279,347,916 | 681,135,538 | Interest of a controlled corporation | 960,483,454 (Note 5) | 24.45% |
| China Construction Bank Corporation | 279,347,916 | 681,135,538 | Interest of a controlled corporation | 960,483,454 (Note 5) | 24.45% |
| Heritage International Holdings Limited | 400,000,000 | | Interest of a controlled corporation | 400,000,000 (Note 6) | 10.18% |
| Coupeville Limited | 400,000,000 | | Interest of a controlled corporation | 400,000,000 (Note 6) | 10.18% |
| Dollar Group Limited | 400,000,000 | | Beneficial owner | 400,000,000 (Note 6) | 10.18% |

Notes:

1. As at 31 March 2012, TRXY Development (HK) Limited was interested in convertible notes in the aggregate principal amount of US$13,024,714.83 which were convertible into 114,722,577 shares, representing approximately 2.92% of the issued share capital of the Company.

2. Real Power Holdings Limited is beneficially owned as to 25% by China Capital Group Limited and 75% by TRXY Development (HK) Limited. China Capital Group Limited is beneficially owned as to 40% by Ma Lishan. Real Power Holdings Limited was also interested in convertible notes issued by the Company on 25 January 2010 in the aggregate principal amount of US$36,007,762.08 which were convertible into 317,158,822 shares, representing approximately 8.08% of the issued share capital of the Company.

3. Hao Tian Group Holdings Limited has controlling interest in TRXY Development (HK) Limited and Tai Rong Xin Ye International Power Generation Inc. TRXY Development (HK) Limited has also controlling interest in Real Power Holdings Limited. Tai Rong Xin Ye International Power Generation Inc. was interested in convertible bond in the aggregate principal amount of HK$258,000,000, which were convertible into 335,064,934 shares, representing approximately 8.53% of the issued share capital of the Company.

4. As at 31 March 2012, Atlantis Capital Holdings Limited was beneficial owner of these shares in the Company, which, in turn, was wholly-owned by Liu Yang.

5. The two references to 960,483,454 shares related to the same block of shares. Big Wish Investments Limited was interested in 825,435,538 shares and underlying shares in the Company. Big Wish Investments Limited is a wholly-owned subsidiary of CCB International Asset Management Limited ("CCBIAM") which was interested in 135,047,916 Shares in the Company, in return, CCBIAM is a wholly-owned subsidiary of CCB International (Holdings) Limited. CCB International (Holdings) Limited is a wholly-owned subsidiary of CCB Financial Holdings Limited which in turn is wholly-owned by CCB International Group Holdings Limited. CCB International Group Holdings Limited is a wholly-owned subsidiary of China Construction Bank Corporation which in turn 57.09% of its interest is owned by Central Huijin Investment Limited. Accordingly, CCBIAM , CCB International (Holdings) Limited, CCB Financial Holdings Limited, CCB International Group Holdings Limited, China Construction Bank Corporation and Central Huijin Investment Limited are deemed to be interested in these shares and underlying shares held in the Company by virtue of the provisions of the SFO.

6. The three references to 400,000,000 shares related to the same block of shares. Heritage International Holdings Limited has controlling interest in Coupeville Limited, which, in return, has also controlling interest in Dollar Group Limited.

Other than as disclosed above, as at 31 March 2012, none of the Directors or their associates had any interests or short positions in any shares, underlying shares and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in the consolidated financial statements for the year ended 31 March 2012, no contracts of significance in relation to the Group's business (as defined in the Listing Rules) to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporation" above and the option holding disclosed in note 40 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# Report of 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 year ended 31 March 2012.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2012, the aggregate sales attributable to the Group's largest customer and five largest customers respectively accounted for approximately 24.1% and 63.7% of the Group's total revenue for the year. The aggregate purchases attributable to the Group's largest supplier and five largest suppliers respectively accounted for approximately 13.4% and 35.2% of the Group's total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers for the year.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

## CONNECTED TRANSACTION

On 28 January 2011, Champ Universe Limited (the "Purchaser"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "S&P Agreement") in respect of acquisition of entire issued share capital of Venture Path Limited (the "Target Company") with Tai Rong Xin Ye International Power Generation Inc (the "Vendor"), pursuant to which the Purchaser conditionally agreed to acquired from the Vendor, and the Vendor conditionally agreed to dispose of, the entire issued share capital of the Target Company at a consideration for HK$1,550,000,000. The purpose of this acquisition is to further develop its coal mining business operation and to provide a solid base for the consolidation of coal reserves in enhancing the long-term growth potential of the Group. The acquisition was completed on 15 June 2011 pursuant to the terms and conditions of the S&P Agreement.

Save as abovementioned connected transaction, the Company or its subsidiaries did not have any material connected transactions which were subject to the requirements of the Listing Rules during the year ended 31 March 2012.

# Report of Directors

## SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of the annual report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and to the best of the knowledge of the Directors.

## AUDIT COMMITTEE

The Audit Committee, comprising three Independent Non-executive Directors, has reviewed, together with the management of the Company, the accounting principles, accounting standards and practices adopted by the Group and discussed the matters concerning internal control and financial reporting matters and have reviewed the consolidated financial statements of the Group for the year ended 31 March 2012.

## AUDITOR

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Ma Lishan**
*Chairman*

Hong Kong
22 June 2012

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize on a quality board of Directors (the "Board"), sound internal control, transparency and accountability to all shareholders of the Company.

The Board is of the opinion that the Company has complied with the code provision as set out in the Code on Corporate Governance Practices (the "CG Code"), under Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which were in force at the material time for the year ended 31 March 2012.

## BOARD COMPOSITION AND BOARD PRACTICES

### Role and function

The Board has the responsibility of overseeing the operations of the Company including formulation and approval of overall business strategies and policies, investment proposals, annual budget, financial results, internal control and monitoring of the performance of the management of the Group and affairs with the objective of enhancing shareholders' interest. The Board delegates the authority and responsibility for implementing day-to-day operations and management of the Group's business to the Chief Executive Officer and the management.

### Composition

As at the date of this report, the Board comprises two Executive Directors, and four Independent Non-executive Directors whose biographical details are set out on pages 5 to 7 of this annual report. The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group.

### Appointment and re-election of Directors

The appointment, re-election and removal of Directors are governed by Articles of Association of the Company. The Board may from time to time appoint a Director either to fill a casual vacancy or as an addition to the Board.

# Corporate Governance Report

At each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire by rotation in accordance with the Company's Articles of Association. Any new Director appointed by the Board is subject to election by the shareholders at the first general meeting after his or her appointment.

Each of the Independent non-Executive Directors of the Company has entered into a service contract with the Company for a term of three years.

## Attendance records

During the year, the Board held 16 Board meetings and the attendance records were as follows:

| | Number of meetings attended/held |
|---|---|
| **Executive Directors:** | |
| Mr. Ma Lishan | 15/16 |
| Mr. Mak Yiu Tong#### | 16/16 |
| Mr. Xu Hai Ying*** | 3/6 |
| Mr. Fung Ka Pun# | 5/5 |
| Mr. Ng Cheuk Fan, Keith# | 5/5 |
| **Non-Executive Director:** | |
| Ms. Fung Wing Ki, Vicky# | 5/5 |
| **Independent Non-Executive Directors:** | |
| Mr. Chan Ming Sun Jonathan** | 0/0 |
| Mr. Zhu Yongguang | 14/16 |
| Mr. Ma Lin* | 3/6 |
| Dr. Tam Hok Lam, Tommy, *J.P.*### | 13/16 |
| Mr. Chan William## | 9/10 |

* Appointed as a director with effect from 1 January 2012

** Appointed as a director with effect from 29 March 2012

*** Appointed as a director with effect from 23 February 2012

\# Resigned as a director with effect from 21 September 2011

\## Resigned as a director with effect from 1 January 2012

\### Resigned as a director with effect from 29 March 2012

\#### Resigned as a director with effect from 31 May 2012

# Corporate Governance Report

## Access to information

All Board members have full access to relevant information both at the meetings and at regular intervals. Board minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company Secretary shall provide professional advice and information to the Directors. In addition, the Directors are able, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board may resolve to provide appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

## Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been arranged in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

## Independent Non-executive Directors

Pursuant to Rule 3.10(1) and 3.10(2) of the Listing Rules, every listed issuer is required to have at least three Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company, with three Independent Non-executive Directors, which represented more than one-third of the total Board members; and one of them has appropriate professional qualifications in accounting or related financial management expertise.

Each of the Independent Non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet with the guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the guidelines. Review will be made regularly on the Board's composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Group.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To ensure a balance of power and authority and aligns with the requirement under Code Provision A.2.1, the roles of Chairman and Chief Executive Officer are segregated and performed by Mr. Ma Lishan and Ms. Li Shao Yu respectively since 23 February 2012. Mr. Ma would be able to focus on the overall strategic planning and development of the Group and effective functioning of the Board whereas Ms. Li would be able to oversee the day-to-day management of the business and operations of the Group.

## BOARD COMMITTEES

The Board has established the four committees, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

## EXECUTIVE COMMITTEE

An Executive Committee was set up in June 2010 and comprises all Executive Directors. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for business decisions. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

## AUDIT COMMITTEE

The Company established an Audit Committee in May 2006. The principal duties of the Audit Committee are to review and to supervise the Group's statutory audit, interim and annual accounts of the Group and internal control system. It also acts as an important link between the Board and the Company's auditor in matters within the scope of the group audit. Meetings shall be held at least twice a year and the terms of reference are posted on the Company's website.

The Audit Committee comprises four Independent Non-executive Directors, namely:

Mr. Chan Ming Sun Jonathan *(Chairman of the Audit Committee)*
Mr. Zhu Yongguang
Mr. Ma Lin
Dr. Zhiliang Ou, *J.P.*

# Corporate Governance Report

During the year, the Audit Committee held two meetings and the attendance records were as follows:

| | Number of meetings attended/held |
|---|---|
| **Independent Non-Executive Directors:** | |
| Mr. Chan Ming Sun Jonathan* | 0/0 |
| Mr. Zhu Yongguang | 1/2 |
| Mr. Ma Lin** | 0/0 |
| Dr. Tam Hok Lam, Tommy, *J.P.*# | 2/2 |
| Mr. Chan William# | 2/2 |

* Mr. Chan Ming Sun Jonathan became a member and the Chairman of the Audit Committee since 29 March 2012

** Mr. Ma Lin became a member of the Audit Committee since 1 January 2012

\# Dr. Tam Hok Lam, Tommy, *J.P.* and Mr. Chan William resigned as a member of the Audit Committee with effect from 29 March 2012 and 1 January 2012 respectively

The Audit Committee has reviewed the audited accounts and final results announcement for the year ended 31 March 2012 and the interim report and the interim results announcement for the six months ended 30 September 2011. It also reviewed the accounting principles and practices adopted by the Group and ensured the compliance with relevant accounting standards, the listing rules and other statutory requirements. In addition, it reviewed the effectiveness of internal control and recommended to the Board for approval of the audit fee proposal for the Group for the year ended 31 March 2012.

For the year ended 31 March 2012, the Group paid Deloitte Touche Tohmatsu, the external auditor of the Group, HK$1,630,000 and HK$4,167,000 as audit fees and non-audit related fees respectively.

## NOMINATION COMMITTEE

The Company set up a Nomination Committee in August 2009 for the purpose of assisting the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing performance and skills of the Directors. The terms of reference of the Nomination Committee are posted on the Company's website.

The Nomination Committee comprises one Executive Director and three Independent Non-Executive Directors, namely:

Mr. Ma Lishan *(Chairman of the Nomination Committee)*
Mr. Chan Ming Sun Jonathan
Mr. Zhu Yongguang
Dr. Zhiliang Ou, *J.P.*

During the year, the Nomination Committee held three meetings for making recommendations to the Board for appointment of Mr. Xu Hai Ying as Non-executive Director and re-designation from Non-executive Director to Executive Director, appointment of Mr. Ma Lin and Mr. Chan Ming Sun Jonathan as Independent Non-executive Director and appointment of Ms. Li Shao Yu as Chief Executive Officer. The attendance records were as follows:

| | **Number of meetings attended/held** |
|---|---|
| Mr. Ma Lishan | 2/3 |
| Mr. Chan Ming Sun Jonathan* | 0/0 |
| Mr. Zhu Yongguang | 3/3 |
| Dr. Tam Hok Lam, Tommy, *J.P.*# | 3/3 |

* Mr. Chan Ming Sun Jonathan became a member of the Nomination Committee since 29 March 2012

\# Dr. Tam Hok Lam, Tommy, *J.P.* resigned as a member of the Nomination Committee since 29 March 2012

## REMUNERATION COMMITTEE

The Company set up a Remuneration Committee in May 2006 to review and give recommendation to the Board regarding the remuneration package of the Directors and the senior management of the Company. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance. The terms of reference of the Remuneration Committee are posted on the Company's website. The Remuneration Committee consists of four members, including three Independent Non-executive Directors and one Executive Director, namely:

Mr. Chan Ming Sun Jonathan *(Chairman of the Remuneration Committee)*
Mr. Ma Lishan
Mr. Zhu Yongguang
Dr. Zhiliang Ou, *J.P.*

# Corporate Governance Report

The Remuneration Committee meeting shall be held at least once a year. Additional meetings should be held if the Remuneration Committee shall so request. During the year, the Remuneration Committee held three meetings for considering and reviewing the remuneration of the Executive Directors of the Company for the year ended 31 March 2012, reviewing and making recommendations to the Board on the remuneration and terms of service contract of Mr. Xu Hai Ying, Mr. Ma Lin, Mr. Chan Ming Sun Jonathan and Ms. Li Shao Yu. No Director is involved in deciding his own remuneration. The attendance records are as follows:

| | **Number of meetings attended/held** |
|---|---|
| Mr. Ma Lishan | 2/3 |
| Mr. Chan Ming Sun Jonathan* | 0/0 |
| Mr. Zhu Yongguang | 3/3 |
| Dr. Tam Hok Lam, Tommy, *J.P.*# | 3/3 |

* Mr. Chan Ming Sun Jonathan became a member and the Chairman of the Remuneration Committee since 29 March 2012

\# Dr. Tam Hok Lam, Tommy, *J.P.* resigned as a member of the Remuneration Committee with effect from 29 March 2012

The remuneration of the Directors and the five highest paid individuals are set out in notes 14 and 15 respectively to the consolidated financial statements.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct of the Company for Directors' securities transactions. The Company has made specific enquiry to all Directors and all Directors confirmed that they have fully complied with the required standard set out in the Model Code.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosures required under the Listing Rules. The Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is in a timely manner.

The statement of the auditor of the Company regarding their reporting responsibilities on the financial statements for the year ended 31 March 2012 is set out in the Independent Auditor's Report on pages 32 to 33 of this annual report.

# Corporate Governance Report

## INTERNAL CONTROLS

The Board has overall responsibility for maintaining sound and effective internal controls to safeguard the shareholders' investment and the Group's assets. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; for the reliability of financial information used within the business or for publication; and for ensuring the compliance with the relevant legislations and regulations.

The Board, through the Audit Committee of the Company, has conducted a review on the effectiveness of the Group's internal control for the year including financial, operational and compliance controls and risk management processes. The Board, through the review by the Audit Committee, is satisfied that the Group has fully complied with the code provisions on internal controls during the year as set forth in the CG Code.

## COMMUNICATION WITH SHAREHOLDERS

The Board is committed to maintaining high degree of transparency to ensure that the investors and the shareholders receive accurate, comprehensive and timely information of the Group by publication of announcements, circulars, interim and annual reports. All shareholders' communications are also available on the Company's website at http://www.haotianhk.com.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend and the external auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

# Independent Auditor's Report

Deloitte.
德勤

德勤•關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

**Deloitte Touche Tohmatsu**
35/F One Pacific Place
88 Queensway
Hong Kong

## TO THE MEMBERS OF HAO TIAN RESOURCES GROUP LIMITED
## 昊天能源集團有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hao Tian Resources Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 121, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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.

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
22 June 2012

# Consolidated Statement of Comprehensive Income

*For the year ended 31 March 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 (Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 7 | **143,079** | 122,099 |
| Cost of sales | | **(106,358)** | (103,072) |
| Gross profit | | **36,721** | 19,027 |
| Other income, gain and loss | 9 | **(304)** | (698) |
| Distribution and selling costs | | **(3,530)** | (4,194) |
| Administrative expenses | | **(74,196)** | (62,966) |
| Other expenses | 10 | **(19,061)** | – |
| Change in fair value of investments held for trading | | **(66)** | (120) |
| Change in fair value of derivative financial instruments | 32 | **180,839** | 6,089 |
| Loss on redemption of convertible note/re-measurement of liability components of convertible notes | 32 | **(426,139)** | – |
| Finance costs | 11 | **(49,002)** | (30,461) |
| Loss before taxation | | **(354,738)** | (73,323) |
| Taxation | 12 | **(4,012)** | (375) |
| Loss for the year from continuing operations | 13 | **(358,750)** | (73,698) |
| **Discontinuing operation** | | | |
| Loss for the year from discontinued operation | 29 | **(19,708)** | (22,948) |
| Loss for the year | | **(378,458)** | (96,646) |
| Other comprehensive income | | | |
| Exchange difference on translation of foreign operations | | **96,256** | 76,199 |
| Available-for-sale investments: | | | |
| – fair value changes during the year | | **(289)** | (407) |
| Reclassification adjustments: | | | |
| – impairment loss recognised | | **715** | – |
| – reclassified to profit or loss upon disposal | | **–** | (832) |
| Other comprehensive income for the year, net of tax | | **96,682** | 74,960 |
| Total comprehensive expense for the year attributable to owners of the Company | | **(281,776)** | (21,686) |
| Loss per share | 17 | | |
| From continuing and discontinued operations | | | |
| – Basic and diluted (HK cents) | | **(12.98)** | (4.80) |
| From continuing operations | | | |
| – Basic and diluted (HK cents) | | **(12.31)** | (3.66) |

# Consolidated Statement of Financial Position

*At 31 March 2012*

| | NOTES | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 18 | **48,808** | 263,770 |
| Prepaid lease payments | 19 | **1,886** | 26,054 |
| Investment property | 20 | **993** | 1,025 |
| Mining rights | 21 | **1,551,983** | 1,988,480 |
| Available-for-sale investments | 22 | **11,212** | 13,061 |
| Deposits for acquisition of subsidiaries | 39 | **–** | 250,000 |
| Deposits | 23 | **95,757** | 90,854 |
| Deferred tax assets | 24 | **205** | 205 |
| | | **1,710,844** | 2,633,449 |
| Current assets | | | |
| Inventories | 25 | **26,126** | 26,781 |
| Trade receivables | 26 | **23,034** | 20,141 |
| Bills receivable | 26 | **–** | 347 |
| Other receivables, deposits and prepayments | 26 | **12,752** | 11,259 |
| Investments held for trading | 27 | **118** | 184 |
| Prepaid lease payments | 19 | **104** | 1,129 |
| Tax recoverable | | **4,903** | 2,934 |
| Bank balances and cash | 26 | **44,040** | 48,676 |
| | | **111,077** | 111,451 |
| Assets classified as held for sale | 28 | **2,492,670** | – |
| | | **2,603,747** | 111,451 |
| Current liabilities | | | |
| Trade payables | 30 | **11,157** | 14,811 |
| Other payables, deposits received and accruals | 30 | **29,002** | 31,909 |
| Convertible notes | 32 | **638,056** | – |
| Embedded derivatives | 32 | **43** | – |
| Tax payable | | **4,285** | 2,060 |
| | | **682,543** | 48,780 |
| Liabilities associated with assets classified as held for sale | 28 | **888,812** | – |
| | | **1,571,355** | 48,780 |
| Net current assets | | **1,032,392** | 62,671 |
| Total assets less current liabilities | | **2,743,236** | 2,696,120 |

# Consolidated Statement of Financial Position

*At 31 March 2012*

| | NOTES | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Retirement benefits obligations | 31 | **1,386** | 1,203 |
| Convertible notes | 32 | **–** | 217,835 |
| Embedded derivatives | 32 | **–** | 180,882 |
| Provision for restoration and environment costs | 33 | **7,289** | – |
| Deferred tax liabilities | 24 | **–** | 496,365 |
| | | **8,675** | 896,285 |
| Net assets | | **2,734,561** | 1,799,835 |
| Capital and reserves | | | |
| Share capital | 34 | **196,377** | 120,573 |
| Reserves | 36 | **2,538,184** | 1,679,262 |
| Equity attributable to owners of the Company | | **2,734,561** | 1,799,835 |

The consolidated financial statements on pages 34 to 121 were approved and authorised for issue by the Board of Directors on 22 June 2012 and are signed on its behalf by

**Ma Lishan**
*DIRECTOR*

**Xu Hai Ying**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

*For the year ended 31 March 2012*

| | Share capital HK$'000 | Convertible shares HK$'000 | Share premium HK$'000 | Warrant reserve HK$'000 | Statutory surplus reserve HK$'000 (note a) | Convertible note equity reserve HK$'000 | Share option reserve HK$'000 | Asset revaluation reserve HK$'000 | Special reserve HK$'000 (note b) | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total equity attributable to owners of the Company HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2010 | 84,309 | – | 1,337,384 | – | 3,539 | – | 470 | 2,639 | (5,754) | 9,501 | (333,806) | 1,098,282 |
| Loss for the year | – | – | – | – | – | – | – | – | – | – | (96,646) | (96,646) |
| Other comprehensive income | – | – | – | – | – | – | – | (1,239) | – | 76,199 | – | 74,960 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | (1,239) | – | 76,199 | (96,646) | (21,686) |
| Issue of new shares due to exercise of share options | 20 | – | 295 | – | – | – | – | – | – | – | – | 315 |
| Issue of new shares upon placing | 18,187 | – | 309,179 | – | – | – | – | – | – | – | – | 327,366 |
| Issue of new shares upon conversion of convertible notes (note 32) | 18,057 | – | 369,650 | – | – | – | – | – | – | – | – | 387,707 |
| Transaction costs attributable to issue of new shares upon placing | – | – | (8,572) | – | – | – | – | – | – | – | – | (8,572) |
| Transfer upon exercise of share options | – | – | 151 | – | – | – | (151) | – | – | – | – | – |
| Transfer upon forfeiture of share options | – | – | – | – | – | – | (157) | – | – | – | 157 | – |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | 16,423 | – | – | – | – | 16,423 |
| At 31 March 2011 | 120,573 | – | 2,008,087 | – | 3,539 | – | 16,585 | 1,400 | (5,754) | 85,700 | (430,295) | 1,799,835 |
| Loss for the year | – | – | – | – | – | – | – | – | – | – | (378,458) | (378,458) |
| Other comprehensive income | – | – | – | – | – | – | – | 426 | – | 96,256 | – | 96,682 |
| Total comprehensive expense for the year | – | – | – | – | – | – | – | 426 | – | 96,256 | (378,458) | (281,776) |
| Issue of convertible shares for acquisition assets through acquisition subsidiaries | – | 706,169 | – | – | – | – | – | – | – | – | – | 706,169 |
| Issue of new shares upon conversion of convertible shares | 47,078 | (706,169) | 659,091 | – | – | – | – | – | – | – | – | – |
| Issue of convertible note for acquisition of assets through purchase of subsidiaries | – | – | – | – | – | 304,884 | – | – | – | – | – | 304,884 |
| Issue of warrants | – | – | – | 6,547 | – | – | – | – | – | – | – | 6,547 |
| Issue of new shares upon placing | 28,726 | – | 157,991 | – | – | – | – | – | – | – | – | 186,717 |
| Transaction costs attributable to issue of new shares upon placing | – | – | (5,866) | – | – | – | – | – | – | – | – | (5,866) |
| Transaction cost attributable to issuance of warrants | – | – | – | (216) | – | – | – | – | – | – | – | (216) |
| Transfer upon forfeiture of share options | – | – | – | – | – | – | (133) | – | – | – | 133 | – |
| Transfer upon redemption | – | – | – | – | – | (168,084) | – | – | – | – | 168,084 | – |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | 18,267 | – | – | – | – | 18,267 |
| **At 31 March 2012** | **196,377** | **-** | **2,819,303** | **6,331** | **3,539** | **136,800** | **34,719** | **1,826** | **(5,754)** | **181,956** | **(640,536)** | **2,734,561** |

Notes:

(a) As stipulated by the relevant laws and regulations of the People's Republic of China (the "PRC"), before distribution of the net profit each year, the Group's subsidiaries established in the PRC shall set aside 10% of its net profit after taxation to the statutory surplus reserve. The reserve fund can only be used, upon approval by the board of directors of these PRC established subsidiaries and by the relevant authority, to offset accumulated losses or increase capital. During the year ended 31 March 2012 and 2011, no transfer from retained profits to the statutory reserve since the Group's PRC subsidiaries incurred net loss.

(b) Special reserve of HK$5,754,000 represents the difference between the nominal amount of share capital issued by Winbox (BVI) Limited and the Company and the nominal amount of the share capital of the acquired subsidiaries and Winbox (BVI) Limited respectively arisen from a group reorganisation occurred in prior years.

# Consolidated Statement of Cash Flows

*For the year ended 31 March 2012*

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss for the year | **(378,458)** | (96,646) |
| Adjustments for: | | |
| Income tax | **3,735** | 37 |
| Dividend income from available-for-sale investments | **–** | (9) |
| Interest income | **(1,550)** | (518) |
| Finance costs | **49,002** | 31,004 |
| Amortisation of mining rights | **556** | – |
| Depreciation of property, plant and equipment and investment property | **8,098** | 4,332 |
| Release of prepaid lease payments | **734** | 1,173 |
| Impairment loss on available-for-sale investments | **715** | – |
| Share-based payments | **18,267** | 16,423 |
| Unwinding of discounting effect on restoration and environmental costs | **1,020** | – |
| Gain on disposal of property, plant and equipment | **(1,560)** | – |
| Loss (gain) on disposal of available-for-sale investments | **999** | (832) |
| Loss on redemption of convertible note/re-measurement of liability components of convertible notes | **426,139** | – |
| Change in fair value of derivative financial instruments | **(180,839)** | (6,089) |
| Operating cash flows before movements in working capital | **(53,142)** | (51,125) |
| Increase in inventories | **(1,307)** | (5,622) |
| Increase in trade receivables | **(2,826)** | (11,249) |
| Decrease in bills receivable | **347** | 29 |
| Increase in other receivables, deposits and prepayments | **(14,866)** | (1,044) |
| Decrease in investments held for trading | **66** | 120 |
| (Decrease) increase in trade payables | **(4,426)** | 8,923 |
| Decrease in other payables, deposits received and accruals | **(12,248)** | (847) |
| Cash used in operations | **(88,402)** | (60,815) |
| Income tax paid | **(4,611)** | (1,684) |
| NET CASH USED IN OPERATING ACTIVITIES | **(93,013)** | (62,499) |

# Consolidated Statement of Cash Flows

*For the year ended 31 March 2012*

| | NOTES | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | | **(114,481)** | (107,678) |
| Deposits paid for purchase of property, plant and equipment | | **(13,941)** | (90,858) |
| Proceeds from disposal of property, plant and equipment | | **8,449** | – |
| Placement in pledged bank deposit | | **(924)** | – |
| Purchases of available-for-sale investments | | **–** | (3,988) |
| Deposits for acquisitions of subsidiaries | | **–** | (250,000) |
| Proceeds from disposal of available-for-sale investments | | **561** | 11,977 |
| Interest received | | **1,550** | 518 |
| Dividends received from available-for-sale investments | | **–** | 9 |
| Net cash used in acquisition of assets through purchase of subsidiaries | 37 | **273** | – |
| NET CASH USED IN INVESTING ACTIVITIES | | **(118,513)** | (440,020) |
| FINANCING ACTIVITIES | | | |
| Interest paid | | **(1,253)** | (551) |
| Redemption of convertible bonds | | **(317,000)** | – |
| Repayment of borrowing | | **–** | (9,080) |
| Net proceeds from issue of warrants | | **6,331** | – |
| The Settlement Fund received (as defined in note 28) | | **365,190** | – |
| Bank deposits in special purpose bank account included in assets classified as held for sale | | **(27,554)** | – |
| Proceeds from exercise of share options | | **–** | 315 |
| Repayment on indemnity obligations (see note 32) | | **–** | (11,446) |
| Repayment on loan from a former shareholder of acquired subsidiaries | | **–** | (49,685) |
| Net proceeds from placement of new shares | | **180,851** | 318,794 |
| NET CASH FROM FINANCING ACTIVITIES | | **206,565** | 248,347 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(4,961)** | (254,172) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **48,676** | 302,671 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **3,256** | 177 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | **46,971** | 48,676 |
| CASH AND EQUIVALENTS REPRESENTED BY | | | |
| Bank balances and cash | | **44,040** | 48,676 |
| Bank balances and cash included in a disposal group classified as held for sale | 28 | **2,931** | – |
| | | **46,971** | 48,676 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 30 September 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is a public limited company and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporation Information section to the annual report.

The principal activities of the Company are investment holding and provision of management service to its subsidiaries. The principal activities of its subsidiaries are set out in note 43.

The Group's consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related party disclosures |
| HK(IFRIC) – INT 14 (Amendments) | Prepayments of a minimum funding requirement |
| HK(IFRIC) – INT 19 | Extinguishing financial liabilities with equity instruments |

The application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in the consolidated financial statements and disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments to Standards or Interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Annual improvements to HKFRSs 2009-2011 cycle[2] |
| HKFRS 1 (Amendments) | Severe hyperinflation and removal of fixed dates for first-time adopters[1] |
| HKFRS 1 (Amendments) | Government loans[2] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of financial assets[1] |
| HKFRS 7 (Amendments) | Disclosures – Offsetting financial assets and financial liabilities[2] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 9 and HKFRS 7 (Amendments) | Mandatory effective date of HKFRS 9 and transition disclosures[3] |
| HKFRS 10 | Consolidated financial statements[2] |
| HKFRS 11 | Joint arrangements[2] |
| HKFRS 12 | Disclosure of interests in other entities[2] |
| HKFRS 13 | Fair value measurement[2] |
| HKAS 1 (Amendments) | Presentation of items of other comprehensive income[5] |
| HKAS 12 (Amendments) | Deferred tax: Recovery of underlying assets[4] |
| HKAS 19 (as revised in 2011) | Employee benefits[2] |
| HKAS 27 (as revised in 2011) | Separate financial statements[2] |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures[2] |
| HKAS 32 (Amendments) | Offsetting financial assets and financial liabilities[6] |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes requirements for classification and measurement of financial liabilities and for derecognition.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and revised Standards and Interpretations issued but not yet effective (continued)

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for accounting periods beginning on or after 1 April 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 March 2016 and that the application of this new Standard may mainly affect the classification and measurement of the Groups' available for sale investments.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land, construction in progress and mining structures, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on the units of production method utilising only recoverable coal reserves as the depletion base.

Freehold land is carried at cost less any recognised impairment loss.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year in which the item is derecognised.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. When an owner-occupied property becomes an investment property, the cost and accumulated depreciation of the owner-occupied property at the date of transfer are transferred to investment property. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their residual values, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year in which the item is derecognised.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

Operating leases are recognised as expenses on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

***Leasehold land and building***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### Retirement benefit costs

Payments to the Group's defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group also operates a defined benefit retirement benefit plan. The cost of providing benefits is dependent on the length of services and the obligation arises when the services are rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time of which payment is expected to be made.

The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income and 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Mining rights

Mining rights acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such mining rights is their fair value at the acquisition date. Mining rights acquired separately are initially measured at cost.

Subsequent to initial recognition, mining rights acquired in a business combination or acquired separately with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for mining rights with finite useful lives is provided on the units of production method utilising only recoverable coal reserves as the depletion base.

### Impairment losses on non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets 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 the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and it is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets*** *(continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL of the Group comprise of investments held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets*** *(continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposits, trade receivables, bills receivable, other receivables, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. Available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in asset revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in asset revaluation reserve is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Impairment of financial assets*** *(continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Impairment of financial assets*** *(continued)*

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in asset revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liabilities and equity instruments*** *(continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Convertible notes contain liability and equity components*

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the fair value of the entire convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity (convertible note equity reserve).

In the subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible note equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in the convertible note equity reserve will be released to the accumulated losses. No gain or loss is recognised in the profit or loss upon conversion or expiration of the option.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liabilities and equity instruments*** *(continued)*

*Convertible notes contain liability and equity components (continued)*

Transaction costs that relate to the issue of convertible notes are allocated to the liability and equity components in proportion to their fair value. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

*Convertible notes contain liability component and conversion option derivative*

Convertible notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liabilities and equity instruments*** *(continued)*

*Re-measurement of liability components of convertible notes*

If the Group revises its estimates of payments of the convertible notes, the carrying amount of the liability component of the convertible notes will be adjusted to reflect the actual and revised estimate of cash flows. The carrying amount of the liability component of the convertible notes is recalculated by computing the present value of estimated future cash flows discounted at the original effective interest rate. The difference between the carrying amount before such revision and the present value of the estimated future cash flows is recognised in profit or loss as loss on re-measurement of liability components of convertible notes.

*Other financial liabilities*

Other financial liabilities including trade payables, other payables and accruals are subsequently measured at amortised cost, using the effective interest method.

***Equity instruments***

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

*Warrants*

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants are recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrant reserve will be transferred to accumulated losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Equity instruments*** *(continued)*

*Convertible shares*

Convertible shares issued by the Company that will be settled by a fixed number of the Company's own equity instruments are equity instruments. The fair value of the convertible shares is recognised in equity. The convertible shares will be transferred to share capital and share premium accounts upon the exercise of the conversion right of the convertible shares.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Derecognition*** *(continued)*

Where the Group redeems a convertible note through exercise of the early redemption option that is classified as a compound instrument with an equity component, a liability component with early redemption option which is closely related to the host debt instrument as at the date of the early redemption, the consideration paid to redeem the convertible note is allocated to the liability component and equity component using the same method as that used to make the allocation between the liability component and equity component on initial recognition of the component instrument. The fair value of the liability component upon the early redemption option is exercised is deemed to be equal to the redemption price. To the extent that the amount of the consideration allocated to the liability component exceeds the carrying amount of the liability component at the date of the early redemption, a loss is recognised in profit or loss. The equity component is reclassified to accumulated loss.

### Share-based payment transactions

***Equity-settled share-based payment transactions***

*Share options granted to employees and others providing similar services*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payment transactions (continued)

***Equity-settled share-based payment transactions*** *(continued)*

*Equity-settled share based payment of acquisition of assets through purchase of subsidiaries*

Convertible shares issued as part of consideration for acquisition of assets through purchase of subsidiaries are measured at fair values of the assets acquired, unless that fair value cannot be reliably measured, in which case, the assets are measured by reference to the fair value of convertible shares.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Provisions for the Group's restoration, rehabilitation and environmental expenses are based on estimates of required expenditure at the mines in accordance with PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 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.

### Renewal of mining right permit

Other than the mining right permits included in assets classified as held for sale (details in note 28), the Group owns one mining right permit which will expire in November 2017, the renewal is subject to the approval by the relevant PRC authority. The Group's mining right permit is required to renew upon its expiry. In the opinion of the directors, after obtaining opinion from its legal counsel, the Group is able to continuously renew its mining right at minimal costs.

If the Group is not able to obtain approval for renewal upon their expiry, the carrying value of the mining right might be significantly reduced and the Group will increase amortisation charges of mining right and depreciation charges of the mining structures where useful lives are less than previously estimated lives, or it will write off or write down the carrying amounts of the mining right and mining structures, which significant impairment loss might be recognised. As at 31 March 2012, the carrying value of the mining right and mining structures, other than those included in assets classified as held for sale were HK$1,551,983,000 and HK$5,749,000 respectively.

On 7 July 2011, the Group's coal mine was suspended, pending rectification of certain safety issues (see note 10(b)), the Group's qualified technicians have prepared a detail work plan for the technical and quality improvement works as well as the future development works of the Group's coal mine. Based on this detail work plan, the Group successfully upgraded its coal mine and obtained safe production permit from relevant PRC authority on 2 December 2011 and resumed operation in late December 2011. In the opinion of the directors, the Group is able to maintain the technical and quality level of its coal mine in the future and the future development of the Group's coal mine will meet the prevailing PRC standards, hence, and the suspension during the year ended 31 March 2012 will not affect the continuously renewal of its mining right at minimal costs upon their expiry in the future.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Estimation of coal reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. If the quantities of reserves are significantly lower than current estimates, it will result in a material impairment loss in respect to the mining right and mining structures and will increase amortisation charges of mining right and depreciation charges of mining structures.

### Fair value of embedded derivative financial instruments

The directors use their judgments in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. In determining the fair value of embedded derivatives instruments, assumptions are made based on currently available market data adjusted for specific features of the instrument (see note 32 for details). As at 31 March 2012, the fair value of embedded derivative financial instrument was HK$43,000 (2011: HK$180,882,000).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which include convertible notes and equity attributable to owners of the Company, comprising issued share capital, reserves and set off with accumulated losses.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of cash dividends, new share issues, as well as the issue of new debts or the redemption of existing debt.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Financial assets | | |
| Financial assets at FVTPL | | |
| – Held for trading | **118** | 184 |
| Loans and receivables (including cash and cash equivalents) | **69,173** | 76,567 |
| Available-for-sale investments | **11,212** | 13,061 |
| | **80,503** | 89,812 |
| Financial liabilities | | |
| Financial liabilities at FVTPL | | |
| – Embedded derivatives | **43** | 180,882 |
| Amortised cost | **678,215** | 264,555 |
| | **678,258** | 445,437 |

### (b) Financial risk management objectives and policies

The Group's financial instruments include deposits, trade receivables, bills receivable, other receivables, bank balances and cash, trade payables, other payables and accruals, available-for-sale investments, investments held for trading, convertible notes and embedded derivatives. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the polices on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk from prior year.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk***

*Foreign currency risk management*

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities excluding intra-group balances as at 31 March 2012 are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **9,541** | 22,346 | **351** | 327 |
| United States Dollars ("US$") | **20,110** | 19,925 | **380,471** | 398,947 |
| Euro | **1,279** | 6,550 | **1,027** | 6 |
| Renminbi ("RMB") | **6,496** | 80 | **82** | 93 |
| Others | **154** | 1,162 | **–** | – |

In addition, as at 31 March 2012, the directors considered that the Group's exposure to foreign currency risk arisen from intra-group loan due to foreign operation of approximately HK$32,816,000 (2011: intra-group loans due from foreign operation of approximately HK$223,891,000), which were not denominated in the functional currency of the group entities. These intra-group loans do not form part of the Group's net investment in foreign operations.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk*** *(continued)*

*Foreign currency risk management (continued)*

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuation of HK$, US$, Euro and RMB against the functional currency of respective group entities, which is mainly HK$, Euro and RMB. The directors considered that, HK$ is pegged to US$, the subsidiaries with HK$ as the functional currency, are subject to insignificant foreign currency risk from change in foreign exchange rate of HK$ against US$, so it is not considered in the sensitivity analysis.

5% is the sensitivity rate used by directors in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis below demonstrated the effect of the foreign exchange differences by 5% change in exchange rate of the functional currencies against the relevant foreign currencies of the Company and respective subsidiaries, other than US$ for those with HK$ functional currency, assuming all other variables were held constant. A positive number below indicates a decrease in post-tax loss where the functional currencies weaken 5% against the relevant foreign currencies of the Company and respective subsidiaries, other than US$ (for those with HK$ functional currency). For a 5% strengthening of the functional currencies of the Company and respective subsidiaries, there would be an equal and opposite impact on the result for the year.

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| (Increase) decrease in loss for the year | **(840)** | 13,181 |

*Interest rate risk management*

The Group is exposed to cash flow interest rate risk in relation to bank balances and pledged bank deposits carried prevailing market interest rate. The interest rate risk on bank balances and pledged bank deposits are limited because of the short maturity. In the opinion of the directors, the expected change in interest rate on bank deposits and pledged bank deposits will not have a significant change in the coming year, hence sensitivity analysis is not presented.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk*** *(continued)*

*Interest rate risk management (continued)*

The Group is also exposed to fair value interest rate risk in relation to convertible notes.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

*Price risk on debt and equity securities*

The Group is exposed to other price risk through its available-for-sale investments and investments held for trading. The directors of the Company considered that the investment in debt and equity securities is not the main business of the Group and is in the process to dispose these investments in the long run to minimise the investment risk embedded, except for as at 31 March 2012, the available-for-sale investment with carrying value of HK$3,261,000 (2011: HK$3,583,000), which is acquired during the year ended 31 March 2011, as the investment could generate stable interest income to the Group.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to other price risks at the end of the reporting period. The sensitivity analysis included those available-for-sale investments and held for trading investments carried at fair values. For available-for-sale investments measured at cost less impairment as the fair value could not be measured reliably, they have not been included in the sensitivity analysis. If the prices of the respective available-for-sale investments and held for trading investments had been 10% higher, assuming all other variables were held constant, the impact to the Group would be:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Decrease in loss for the year | **12** | 18 |
| Increase in other comprehensive income for the year | **612** | 641 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk*** *(continued)*

*Price risk on debt and equity securities (continued)*

Sensitivity analysis (continued)

If the prices of respective available-for-sale investments and held for trading investments had been 10% lower, assuming all other variables were held constant, the impact to the Group would be:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Increase in loss for the year | **353** | 18 |
| Decrease in other comprehensive income for the year | **271** | 641 |

10% change in price represents the directors' assessment of the reasonably possible change in price.

*Price risk on embedded conversion option of CN1 (as defined in note 32)*

The Group is required to estimate the fair value of the conversion option embedded in the convertible notes classified as financial liabilities at FVTPL at the end of the reporting period with changes in fair value to be recognised in the profit or loss as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility. As at 31 March 2012, due to the re-measurement of the liability components of the convertible notes, the Group expects the convertible notes will be repaid within twelve months, in the opinion of the directors, the price risk as at 31 March 2012 is insignificant as the expected repayment period is short, hence, no sensitivity analysis is presented.

## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk*** *(continued)*

*Price risk on embedded conversion option of CN1 (as defined in note 32) (continued)*

Sensitivity analysis

The sensitivity analysis for the year ended 31 March 2011 were determined based on the exposure to the Company's share price risk at the end of the reporting period only. If the Company's share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 March 2011 (as a result of changes in fair value of conversion option component of convertible notes) would increase/decrease by approximately HK$23,223,000.

In the opinion of the directors of the Company, the sensitivity analysis above was unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option embedded in the convertible notes involves multiple variables and certain variables are interdependent.

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group has concentration of credit risk in respect of the trade receivables. As at 31 March 2012 and 2011, five customers from the Group's plastic and paper boxes business comprised over 75% of the Group's trade receivables. These five customers are internationally recognised and luxury brand owners in Europe and the United States, with long business relationship with the Group. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has a concentration of credit risk on liquid funds deposited with a few major banks. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Liquidity risk***

The Group manages its liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowing and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities (including embedded derivatives of the convertible notes). It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate % | On demand or between 1 to 3 months HK$'000 | Between 4 to 12 months HK$'000 | Over one year HK$'000 | Total undiscounted cash flows HK$'000 | Total carrying amount at 31 March HK$'000 |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| Trade payables | **-** | **11,157** | **-** | **-** | **11,157** | **11,157** |
| Other payables and accruals | **-** | **29,002** | **-** | **-** | **29,002** | **29,002** |
| CN1*# | **8.52** | **-** | **380,056** | **-** | **380,056** | **380,099** |
| CN2*# | **18.01** | **1,290** | **258,000** | **-** | **259,290** | **258,000** |
| | | **41,449** | **638,056** | **-** | **679,505** | **678,258** |
| 2011 | | | | | | |
| Trade payables | – | 14,811 | – | – | 14,811 | 14,811 |
| Other payables and accruals | – | 31,909 | – | – | 31,909 | 31,909 |
| CN1* | 8.52 | – | – | 380,056 | 380,056 | 398,717 |
| | | 46,720 | – | 380,056 | 426,776 | 445,437 |

* CN1 and CN2 are defined in note 32.

# On 10 February 2012, the Company has reached agreement with the bondholders to settle the entire CN1 and CN2 within the next twelve months (details are set out in note 32).

## 6. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of listed equity securities and listed debentures with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;

- the fair value of club debentures is determined by reference to the transaction prices in the secondary markets. The price of the most recent transaction provides evidence of the current fair value if there has not been significant change in economic circumstances since the time of the transaction;

- the fair value of option-based derivative instruments (embedded derivative as included in convertible notes), is estimated using option pricing model; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 6. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value (continued)

| | 31 March 2012 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Embedded conversion option of convertible notes | – | – | 43 | 43 |
| Available-for-sale investments | 3,407 | 2,710 | – | 6,117 |
| Investment held for trading | 118 | – | – | 118 |
| | 3,525 | 2,710 | 43 | 6,278 |

| | 31 March 2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Embedded conversion option of convertible notes | – | – | 180,882 | 180,882 |
| Available-for-sale investments | 3,696 | 2,710 | – | 6,406 |
| Investment held for trading | 184 | – | – | 184 |
| | 3,880 | 2,710 | 180,882 | 187,472 |

There were no transfer between Level 1 and 2 in the current year.

## 6. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value (continued)

***Reconciliation of level 3 fair value measurements of financial liabilities***

| | **HK$'000** |
|---|---|
| At 1 April 2010 | 392,765 |
| Conversion during the year | (205,794) |
| Total gain or loss recognised in profit or loss | |
| – Change in fair value | (6,089) |
| At 31 March 2011 | 180,882 |
| Total gain or loss recognised in profit or loss | |
| – Change in fair value | (180,839) |
| **At 31 March 2012** | **43** |

## 7. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less sales tax and sales returns during the year. An analysis of the Group's revenue for the year from continuing operations is as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sale of plastic and paper boxes for luxury consumer goods | **140,218** | 122,099 |
| Sale of coal | **2,861** | – |
| | **143,079** | 122,099 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 8. SEGMENT INFORMATION

The Group is currently organised into below operating divisions:

(a) Sale of plastic and paper boxes for luxury consumer goods:

(i) France Operation – Dardel S.A.S.

(ii) China Operation – Winbox Company Limited, Dongguang Ever Green Plastic Manufacturing Company Limited, Winbox Plastic Manufacturing (Shenzhen) Company Limited and Winpac Trading Co. Limited

(b) Developing of underground coking coal mine, coal production and sale of coal ("Coal Mining Operation"):

(iii) Coal Mining Operation – Baicheng Wenzhou Mining Development Co., Ltd. ("Baicheng Wenzhou") and Wuhai City Menggang Industrial Development Co., Ltd and its subsidiaries (collectively referred as the "Menggang Group"). Baicheng Wenzhou operates coal mine in the Xinjiang Uygur Autonomous Region, the PRC ("Xinjiang Coal Mining Operation") and the Menggang Group operates coal mines in the Inner-Mongolia Autonomous Region in the PRC ("Inner-Mongolia Coal Mining Operation")

The operating divisions are the basis of internal reports about components of the Group that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, in order to allocate resources to segments and to assess their performance.

During the year, the Group's Inner-Mongolia Coal Mining Operation was considered as discontinued operation (details are set out in notes 28 and 29). The segment information reported below include the results of the Inner-Mongolia Coal Mining Operation, as the chief operating decision maker reviews the Coal Mining Operation as a whole to allocate resources to segments and to assess their performance.

No segment assets and liabilities are presented as the chief operating decision maker does not regularly review segment assets and liabilities.

## 8. SEGMENT INFORMATION (continued)

### Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

**For the year ended 31 March 2012**

| | Sale of plastic and paper boxes for luxury consumer goods | | | |
|---|---|---|---|---|
| | China Operation | France Operation | Coal Mining Operation | Consolidated |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | 112,957 | 27,261 | 2,861 | 143,079 |
| Segment results | 3,263 | 4,580 | (29,702) | (21,859) |
| *Add:* Segment loss from discontinued operation | | | | 19,985 |
| Segment results from continuing operations | | | | (1,874) |
| Other income, gain and loss | | | | (304) |
| Central administration costs | | | | (49,375) |
| Other expenses | | | | (8,817) |
| Change in fair value of investments held for trading | | | | (66) |
| Change in fair value of derivatives financial instruments | | | | 180,839 |
| Loss on redemption of convertible notes/ re-measurement of liability components of convertible notes | | | | (426,139) |
| Finance costs | | | | (49,002) |
| Loss before taxation from continuing operations | | | | (354,738) |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 8. SEGMENT INFORMATION (continued)

### Segment revenue and results (continued)

For the year ended 31 March 2011

| | Sale of plastic and paper boxes for luxury consumer goods China Operation HK$'000 | France Operation HK$'000 | Coal Mining Operation HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue | 90,506 | 31,593 | – | 122,099 |
| Segment results | (10,813) | 2,263 | (21,112) | (29,662) |
| *Add:* Segment loss from discontinued operation | | | | 21,112 |
| Segment results from continuing operations | | | | (8,550) |
| Other income, gain and loss | | | | (698) |
| Central administration costs | | | | (39,583) |
| Change in fair value of investments held for trading | | | | (120) |
| Change in fair value of derivatives financial instruments | | | | 6,089 |
| Finance costs | | | | (30,461) |
| Loss before taxation from continuing operations | | | | (73,323) |

All of the segment revenue reported for both years were from external customers. The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

Segment results represent the profit or loss earned by each segment without allocation of other income, gain and loss, legal and professional fee related to acquisition and proposed disposal of subsidiaries, central administration costs, change in fair value of investments held for trading, derivative financial instruments, loss on redemption of convertible notes/re-measurement of liability components of convertible notes, share-based payments and finance costs. This is the measure reported to the board of directors for the purpose of resource allocation and performance assessment.

## 8. SEGMENT INFORMATION (continued)

### Other segment information

| | Sale of plastic and paper boxes for luxury consumer goods France Operation HK$'000 | China Operation HK$'000 | Coal Mining Operation HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 March 2012** | | | | | | |
| Amounts included in the measure of segment profit or loss: | | | | | | |
| Amortisation of mining rights | **-** | **-** | **556** | **556** | **-** | **556** |
| Depreciation of property, plant and equipment and investment property (Note) | **126** | **961** | **6,840** | **7,927** | **171** | **8,098** |
| Release of prepaid lease payments (Note) | **-** | **-** | **734** | **734** | **-** | **734** |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss: | | | | | | |
| Additions to non-current assets (Note) | **66** | **864** | **1,666,190** | **1,667,120** | **-** | **1,667,120** |
| Finance cost | **-** | **-** | **-** | **-** | **49,002** | **49,002** |
| Taxation (credit) charge | **1,934** | **2,078** | **(277)** | **3,735** | **-** | **3,735** |

| | Sale of plastic and paper boxes for luxury consumer goods France Operation HK$'000 | China Operation HK$'000 | Coal Mining Operation HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 March 2011 | | | | | | |
| Amounts included in the measure of segment profit or loss: | | | | | | |
| Depreciation of property, plant and equipment and investment property (Note) | 195 | 1,432 | 2,534 | 4,161 | 171 | 4,332 |
| Release of prepaid lease payments (Note) | – | – | 1,156 | 1,156 | 17 | 1,173 |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss: | | | | | | |
| Additions to non-current assets (Note) | 148 | 1,375 | 189,024 | 190,547 | – | 190,547 |
| Finance cost | – | 7 | 543 | 550 | 30,454 | 31,004 |
| Taxation (credit) charge | 358 | 17 | (338) | 37 | – | 37 |

Note: Non-current assets excluded available-for-sale investments, deferred tax asset and those property, plant and equipment and prepaid lease payments for administrative purpose. Accordingly, depreciation of property, plant and equipment and release of prepaid lease payments for administrative purpose were excluded from segment profit or loss.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 8. SEGMENT INFORMATION (continued)

### Geographical information

The Group's customers are located in Hong Kong, the PRC, North America, Europe and other regions.

The Group's revenue from external customers by geographical location of markets, or customer irrespective of the origin of the good/service are detailed below:

| | Revenue from external customers | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Sale of plastic and paper boxes for luxury consumer goods | | |
| Hong Kong | **22,703** | 38,809 |
| France | **44,375** | 31,893 |
| Germany | **38,377** | 21,791 |
| Italy | **3,214** | 5,117 |
| Netherlands | **57** | 3,964 |
| Switzerland | **24,296** | 8,573 |
| North America | **254** | 2,269 |
| Other region | **6,942** | 9,683 |
| | **140,218** | 122,099 |
| Developing of underground coking coal mine, coal production and sale of coal | | |
| The PRC | **2,861** | – |
| Total | **143,079** | 122,099 |

## 8. SEGMENT INFORMATION (continued)

### Geographical information (continued)

The information about the Group's non-current assets by geographic area in which the assets are located is detailed below:

| | Non-current assets (note) | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Hong Kong | **6,834** | 8,809 |
| The PRC | **1,683,598** | 2,604,274 |
| France | **1,550** | 7,100 |
| | **1,691,982** | 2,620,183 |

Note: Non-current assets excluded financial instruments and deferred tax assets.

### Information about major customers

Revenue from customers of the year ended 31 March 2012 and 2011 contributing over 10% of total sales of the Group, each deriving revenue from sales of plastic and paper boxes for luxury consumer goods segment, are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **34,509** | 16,344 |
| Customer B | **22,027** | 38,016 |

Customer A is located in Europe and Customer B is located in Hong Kong.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 9. OTHER INCOME, GAIN AND LOSS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Dividend income from listed available-for-sale investments | **–** | 9 |
| (Loss) gain on disposal of available-for-sale investments | **(999)** | 832 |
| Impairment loss on available-for-sale investments | **(715)** | – |
| Gain on disposal of property, plant and equipment | **1,560** | – |
| Interest earned on bank deposits | **237** | 408 |
| Interest earned on listed available-for-sale investments | **430** | 86 |
| Net foreign exchange loss | **(2,954)** | (2,453) |
| Sundry income | **2,137** | 420 |
| | **(304)** | (698) |

## 10. OTHER EXPENSES

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Legal and professional fee related to acquisition and proposed disposal of subsidiaries (Note a) | **8,817** | – |
| Direct cost incurred during the suspension period (Note b) | **10,244** | – |
| | **19,061** | – |

Notes:

(a) Amounts represent legal and professional fee incurred for acquisition of assets through purchase of subsidiaries (set out in note 37) and proposed disposal of subsidiaries (set out in note 28).

(b) On 7 July 2011, the relevant PRC authorities ("Relevant Authorities") issued notices to Baicheng Wenzhou (the "Notices"), and requested Baicheng Wenzhou to address certain safety issues, including, inter alia, (i) implementation of measures regarding methane level in its coal mine by installation of ventilation; and (ii) the inadequacies of its ventilation system. The Relevant Authorities ordered Baicheng Wenzhou to suspend production with immediate effect, pending rectification of the said safety issues (the "Suspension Period").

Wages, depreciation expense, consumables and other direct attributable costs of HK$10,244,000 incurred during the Suspension Period of the operation of the coal mine of Baicheng Wenzhou was recognised as other expenses.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 10. OTHER EXPENSES (continued)

Notes: (continued)

(b) (continued)

On 9 November 2011, a formal inspection was conducted by the officials of the Relevant Authorities and confirmed to Baicheng Wenzhou that the requested rectification of the major safety issues, namely, issues relating to methane level and the inadequacies of its ventilation system, have been primarily completed. On 2 December 2011, the Relevant Authorities issued the safe production permit to Baicheng Wenzhou and the production of Baicheng Wenzhou resumed in late December 2011.

## 11. FINANCE COSTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on bank borrowing wholly repayable within five years | **–** | 7 |
| Imputed interest expense on convertible notes (note 32) | **49,002** | 30,454 |
| | **49,002** | 30,461 |

## 12. TAXATION

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax: | | |
| Hong Kong | **3** | 17 |
| Other jurisdictions | **2,009** | 363 |
| | **2,012** | 380 |
| Under (over) provision in prior years – Hong Kong | **2,000** | (5) |
| Taxation for the year | **4,012** | 375 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 12. TAXATION (continued)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") Implementation Regulations of the EIT Law, the tax rate is 25% from 1 January 2008 onwards. The implementation to the EIT Law has impact to the Company's wholly owned subsidiary, Winbox Plastic Manufacturing (Shenzhen) Company Limited, which previously enjoyed the preferential tax policy in the form of a reduced tax rate, is entitled to use a tax rate of 24% for the period from 1 January 2011 to 31 December 2011 and 25% for the period from 1 January 2012 to 31 March 2012 (1.4.2010 to 31.12.2010: 22%).

French profits tax is calculated at 33.3% of the estimated assessable profit of Dardel S.A.S. for both years.

During the year ended 31 March 2012 and 2011, the Inland Revenue Department ("IRD") initiated a tax audit on certain group companies and has issued estimated additional assessments for certain years of assessments. The Group applied hold over for the full amount and purchased tax reserve certificate of approximately HK$1.3 million and HK$2 million during the year ended 31 March 2012 and 2011 respectively. As at 31 March 2012, total amount of tax reserve certificate purchased was HK$4.6 million (2011: HK$3.3 million). In the opinion of the directors, after reassessing the tax position of these group companies, an amount of HK$2 million (2011: nil) was additionally provided and charged to profit or loss as under-provision of taxation in respect of prior years during the year ended 31 March 2012. Since the tax audit is still at a fact-finding stage with different views being and will be exchanged with the IRD, in the opinion of the directors, as at 31 March 2012, the additional provision made is sufficient at this stage.

There may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies, depending on the result of the tax audit.

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Loss before taxation | **(354,738)** | (73,323) |
| Tax at Hong Kong Profits Tax rate of 16.5% | **(58,532)** | (12,098) |
| Tax effect of expenses not deductible for tax purposes | **84,302** | 11,737 |
| Tax effect of income not taxable for tax purposes | **(30,239)** | (2,667) |
| Effect of different tax rate of subsidiaries operating in other jurisdiction | **816** | 205 |
| Under(over)provision in respect of prior years | **2,000** | (5) |
| Tax effect of estimated tax losses not recognised | **5,665** | 3,203 |
| Taxation for the year | **4,012** | 375 |

## 13. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Loss for the year from continuing operations have been arrived at after charging: | | |
| Auditor's remuneration | **1,658** | 1,487 |
| Amortisation of mining rights (included in cost of sales) | **556** | – |
| Cost of inventories recognised as an expense | **106,358** | 103,072 |
| Depreciation of property, plant and equipment and investment property | **6,688** | 1,798 |
| Release of prepaid lease payments | **132** | 17 |
| Operating lease rentals in respect of rented premises | **5,309** | 7,070 |
| Staff costs: | | |
| Directors' emoluments (note 14) | **11,213** | 16,023 |
| Other staff costs | | |
| – salaries, bonus and other allowances | **59,735** | 56,103 |
| – retirement benefit scheme contributions | **3,288** | 2,738 |
| – share-based payments | **11,569** | 5,201 |
| | **85,805** | 80,065 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors were as follows:

| | 2012 | | | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fee HK$'000 | Salaries and other allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 | Fee HK$'000 | Salaries and other allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
| Ma Lishan | - | 2,213 | 12 | 3,690 | 5,915 | – | 1,188 | 11 | 2,482 | 3,681 |
| Fung Ka Pun (Note a) | - | 963 | - | 1,857 | 2,820 | – | 2,040 | 8 | 7,623 | 9,671 |
| Ng Cheuk Fan, Keith (Note a) | - | 199 | 6 | 573 | 778 | – | 390 | 12 | 621 | 1,023 |
| Mak Yiu Tong (Note f) | - | 338 | 11 | 369 | 718 | – | 162 | 8 | 248 | 418 |
| Fung Wing Ki, Vicky (Note a) | - | 160 | 6 | 209 | 375 | – | 325 | 12 | 248 | 585 |
| Tam Hok Lam, Tommy (Note b) | 180 | - | - | - | 180 | 173 | – | – | – | 173 |
| Zhu Yongguang | 180 | - | - | - | 180 | 123 | – | – | – | 123 |
| Chan William (Note c) | 135 | - | - | - | 135 | 105 | – | – | – | 105 |
| Ma Lin (Note d) | 45 | - | - | - | 45 | – | – | – | – | – |
| Xu Haiying (Note d) | - | 67 | - | - | 67 | – | – | – | – | – |
| Chan Ming Sun, Jonathan (Note e) | - | - | - | - | - | – | – | – | – | – |
| Hui Ka Wah, Ronnie (Note g) | - | - | - | - | - | 81 | – | – | – | 81 |
| Leung Man Chun, Paul (Note g) | - | - | - | - | - | 74 | – | – | – | 74 |
| Mok Chiu Kuen (Note g) | - | - | - | - | - | 89 | – | – | – | 89 |
| | 540 | 3,940 | 35 | 6,698 | 11,213 | 645 | 4,105 | 51 | 11,222 | 16,023 |

Notes:

(a) On 21 September 2012, Mr. Fung Ka Pun, Mr. Ng Cheuk Fan, Keith and Fung Wing Ki, Vicky were resigned as directors of the Company.

(b) On 29 March 2012, Mr. Tam Hok Lam, Tommy was resigned as director of the Company.

(c) On 1 January 2012, Mr. Chan William was resigned as director of the Company.

(d) On 1 January 2012, Mr. Ma Lin and Mr. Xu Haiying were appointed as director of the Company.

(e) On 29 March 2012, Mr. Chan Ming Sun, Jonathan was appointed as directors of the Company.

(f) On 31 May 2012, Mr. Mak Yiu Tong was resigned as director of the Company.

(g) On 27 September 2010, Mr. Hui Ka Wah, Ronnie, Mr. Leung Man Chun, Paul and Mr. Mok Chiu Kuen were resigned as directors of the Company.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 15. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors of the Company whose emoluments were included in the disclosures in note 14 above. The emoluments of the remaining three individuals (2011: three individuals) were as follows:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Salaries and other allowances | **3,457** | 3,648 |
| Retirement benefit scheme contributions | **36** | 22 |
| Share-based payments | **5,046** | 3,103 |
| | **8,539** | 6,773 |

The emoluments were within the following bands:

| | **2012** **No. of employees** | 2011 No. of employees |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$3,500,001 to HK$4,000,000 | **–** | 1 |
| HK$4,500,001 to HK$5,000,000 | **1** | – |

During the year, no emoluments or discretionary bonus were paid by the Group to the above highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 16. DIVIDEND

No dividend was paid or proposed by the directors for both years nor has any dividend been proposed since the end of the reporting period.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 17. LOSS PER SHARE

### From continuing and discontinued operations

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Loss for the purposes of basic and diluted loss per share | **(378,458)** | (96,646) |

| | 2012<br>'000 | 2011<br>'000 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **2,915,454** | 2,015,323 |

### From continuing operations

The calculation of basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Loss for the year | **(378,458)** | (96,646) |
| *Add:* Loss for the year from discontinued operation | **19,708** | 22,948 |
| Loss for the purposes of calculating basic and diluted loss per share from continuing operations | **(358,750)** | (73,698) |

The denominators used are the same as those detailed above for basic and diluted loss per share from continuing and discontinued operations.

### From discontinued operation

Basic and diluted loss per share from discontinued operation is HK0.67 cents (2011: HK1.14 cents), based on the loss for the year from discontinued operation of HK$19,708,000 (2011: HK$22,948,000) and the denominators detailed above for both basic and diluted loss per share from continuing and discontinued operations.

For the year ended 31 March 2012, the computation of diluted loss per share for both continuing and discontinued operations does not assumed the exercise of the conversion rights of the Company's outstanding convertible notes and the Company's outstanding share options and warrants, since the assumed exercise would reduce loss per share.

For the year ended 31 March 2011, the computation of diluted loss per share for both continuing and discontinued operations does not assumed the exercise of the conversion rights of the Company's outstanding convertible notes and the Company's outstanding share options, since the assumed exercise would reduce loss per share.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land HK$'000 | Buildings on freehold land HK$'000 | Leasehold land and buildings HK$'000 | Mining structures HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, and equipment HK$'000 | Moulds HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | | | | |
| At 1 April 2010 | 507 | 7,034 | 13,630 | 39,546 | 1,391 | 5,338 | 14,788 | 4,720 | 8,241 | 1,803 | 96,998 |
| Exchange adjustments | 29 | 406 | 213 | 2,254 | 4,173 | 9 | 684 | 144 | 17 | 165 | 8,094 |
| Additions | – | – | – | – | 177,814 | 1,264 | 5,255 | 1,460 | – | 4,754 | 190,547 |
| Transfer | – | – | 1,307 | 18,056 | (19,363) | – | – | – | – | – | – |
| At 31 March 2011 | 536 | 7,440 | 15,150 | 59,856 | 164,015 | 6,611 | 20,727 | 6,324 | 8,258 | 6,722 | 295,639 |
| Exchange adjustments | (29) | (374) | (144) | 126 | 7,004 | 84 | 347 | (45) | 127 | 304 | 7,400 |
| Additions | – | – | 202 | – | 33,593 | 332 | 5,826 | 1,961 | – | 11,283 | 53,197 |
| Acquisition of subsidiaries (note 37) | – | – | 2,085 | 4,780 | 2,535 | – | 7,020 | 248 | – | 2,583 | 19,251 |
| Transfer to assets classified as held for sale (note 28) | – | – | (8,385) | (58,669) | (194,344) | – | (17,313) | (2,420) | – | (4,668) | (285,799) |
| Transfer | – | – | 4,209 | 870 | (5,079) | – | – | – | – | – | – |
| Disposal | – | (5,689) | – | – | – | (2,442) | – | (159) | – | (1,938) | (10,228) |
| **At 31 March 2012** | **507** | **1,377** | **13,117** | **6,963** | **7,724** | **4,585** | **16,607** | **5,909** | **8,385** | **14,286** | **79,460** |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | | | | |
| At 1 April 2010 | – | 909 | 3,205 | – | – | 4,655 | 7,092 | 2,983 | 8,005 | 159 | 27,008 |
| Exchange adjustments | – | 101 | 59 | – | – | 8 | 243 | 113 | 9 | 29 | 562 |
| Provided for the year | – | 213 | 301 | – | – | 552 | 1,628 | 744 | 124 | 737 | 4,299 |
| At 31 March 2011 | – | 1,223 | 3,565 | – | – | 5,215 | 8,963 | 3,840 | 8,138 | 925 | 31,869 |
| Exchange adjustments | – | (69) | 1,069 | 145 | – | 51 | 320 | 27 | 126 | 66 | 1,735 |
| Provided for the year | – | 51 | 823 | 1,069 | – | 547 | 2,823 | 1,046 | 69 | 1,638 | 8,066 |
| Transfer to assets classified as held for sale (note 28) | – | – | (1,668) | – | – | – | (3,899) | (909) | – | (1,203) | (7,679) |
| Disposal | – | (585) | – | – | – | (2,411) | – | (123) | – | (220) | (3,339) |
| **At 31 March 2012** | **-** | **620** | **3,789** | **1,214** | **-** | **3,402** | **8,207** | **3,881** | **8,333** | **1,206** | **30,652** |
| CARRYING VALUES | | | | | | | | | | | |
| **At 31 March 2012** | **507** | **757** | **9,328** | **5,749** | **7,724** | **1,183** | **8,400** | **2,028** | **52** | **13,080** | **48,808** |
| At 31 March 2011 | 536 | 6,217 | 11,585 | 59,856 | 164,015 | 1,396 | 11,764 | 2,484 | 120 | 5,797 | 263,770 |

Depreciation is provided to write off the cost of items of property, plant and equipment, other than freehold land, mining structures and construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Freehold land | Nil |
| Buildings on freehold land | 2% |
| Leasehold land and buildings | shorter of remaining term of lease or 2% to 10% |
| Construction in progress | Nil |
| Leasehold improvements | 20% |
| Plant and machinery | $6\frac{2}{3}$% to $33\frac{1}{3}$% |
| Furniture, fixtures and equipment | 20% |
| Moulds | 20% |
| Motor vehicles | 10% to 25% |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 18. PROPERTY, PLANT AND EQUIPMENT (continued)

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on the units of production method utilising only recoverable coal reserve as the depletion base. For the year ended 31 March 2012 and 2011, no depreciation was charged to profit or loss for the mining structure owned by the Menggang Group as there was no production. For the year ended 31 March 2012, depreciation on mining structures represented the depreciation of mining structures owned by Baicheng Wenzhou because its coal mine operation has resumed after the Suspension Period since late December 2011.

The freehold land and buildings on freehold land of the Group are located outside Hong Kong.

As at the end of the reporting period, leasehold land and buildings of HK$6,731,000 (2011 HK$7,802,000) are located outside Hong Kong and remaining of HK$3,597,000 (2011 HK$3,783,000) are located in Hong Kong. The leasehold land and buildings of the Group are held under medium-term lease.

## 19. PREPAID LEASE PAYMENTS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Analysed for reporting purpose as | | |
| Current asset | **104** | 1,129 |
| Non-current asset | **1,886** | 26,054 |
| | **1,990** | 27,183 |
| The Group's prepaid lease payments comprise: | | |
| Leasehold land outside Hong Kong | **1,990** | 27,183 |

The leasehold land of the Group is held under medium-term lease and charged to profit or loss on a straight-line basis over the lease terms.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 20. INVESTMENT PROPERTY

| | HK$'000 |
|---|---|
| COST | |
| At 1 April 2010, 31 March 2011 and 2012 | 1,624 |
| DEPRECIATION | |
| At 1 April 2010 | 566 |
| Provided for the year | 33 |
| At 31 March 2011 | 599 |
| Provided for the year | 32 |
| **At 31 March 2012** | **631** |
| CARRYING VALUES | |
| **At 31 March 2012** | **993** |
| At 31 March 2011 | 1,025 |

In the opinion of the directors, the estimated fair value of investment property as at 31 March 2012 is approximately HK$4,696,000 (2011: HK$4,201,000) which is estimated by reference to the recent transaction prices of similar properties.

The above investment property is located in Hong Kong, held under medium lease term and depreciated on a straight-line basis over the term of the lease of 50 years.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 21. MINING RIGHTS

| | HK$'000 |
|---|---|
| COST | |
| At 1 April 2010 | 1,903,116 |
| Exchange realignment | 85,364 |
| At 31 March 2011 | 1,988,480 |
| Acquisition of subsidiaries (note 37) | 1,520,465 |
| Transfer to assets classified as held for sales (note 28) | (2,041,108) |
| Exchange realignment | 84,702 |
| **At 31 March 2012** | **1,552,539** |
| AMORTISATION | |
| At 1 April 2010 and 31 March 2011 | – |
| Provided for the year | 556 |
| **At 31 March 2012** | **556** |
| CARRYING VALUES | |
| **At 31 March 2012** | **1,551,983** |
| At 31 March 2011 | 1,988,480 |

The mining right permit obtained through acquisition of subsidiaries during the year will expire in November 2017. Based on the advice from the Company's legal counsel, the Group will be entitled to renew the mining right upon the expiration at minimal cost. Mining rights transferred to assets classified as held for sale will expire in December 2012 and 2013.

Mining rights are amortised based on the units of production method utilising only recoverable coal reserves as the depletion base. During the year ended 31 March 2012 and 2011, the Group's mines owned by the Menggang Group had no production as one of the mines requires further technical and quality improvement works to modify the mining structures to meet the safety standards in accordance with the new regulations imposed by the PRC authority in 2009 and the other mine requires further development works to bring this mine into a production status. No amortisation on mining rights owned by the Menggang Group was charged to profit or loss as there was no production for both years.

Amortisation for the year ended 31 March 2012 represents amortisation of mining right owned by Baicheng Wenzhou, with its coal mine resumed operation after the Suspension Period in late December 2011.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Available-for-sale investments include: | | |
| Equity securities listed outside Hong Kong, at fair value | **146** | 113 |
| Debentures listed outside Hong Kong with fixed interest of 10.5% and maturity date on 14 January 2016, at fair value | **3,261** | 3,583 |
| Unlisted equity securities, at cost | **5,095** | 6,655 |
| Club debentures, at fair value | **2,710** | 2,710 |
| | **11,212** | 13,061 |

Fair values of listed equity securities are based on quoted market bid price in the active market.

The unlisted equity securities are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. During the year ended 31 March 2012, the Group disposed of certain unlisted equity securities with an aggregate carrying value of approximately HK$1,560,000 (2011: HK$6,825,000) to an independent third party at HK$561,000 (2011: HK$6,825,000), which had been carried at cost less impairment before the disposal. Loss on disposal of HK$999,000 (2011: nil) was recognised in profit or loss.

Club debentures are stated at fair values which have been determined by reference to the quoted prices in the secondary markets.

As at 31 March 2012, the available-for-sale investments of approximately HK$3,696,000 (2011: HK$4,684,000) are denominated in currencies other than the functional currency of the respective group entities.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 23. DEPOSITS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Pledged bank deposit (Note a) | **5,724** | – |
| Other deposits (Note b) | **1,721** | – |
| Deposits for purchase of property, plant and equipment | **88,312** | 90,854 |
| | **95,757** | 90,854 |

Notes:

(a) Pledged bank deposit of RMB4,663,000 (equivalent to approximately HK$5,724,000) as at 31 March 2012 represents the deposit placed in a bank account opened by Baicheng Wenzhou, which is required by the Xinjiang Uyghur Autonomous Region Finance Department and Land Resource Department (the "Xinjiang Regulators") as a deposit for land disturbance and environmental rehabilitation. The Group is not allowed to withdraw the deposit until the completion of land restoration activities after the cessation of mining activities. The pledged bank deposit carries effective interest at 1.55% per annum.

(b) Being deposits paid to different government regulators for operating in mining industry, the deposits are refundable upon the cessation of mining activities.

## 24. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **205** | 205 |
| Deferred tax liabilities | **–** | (496,365) |
| | **205** | (496,160) |

## 24. DEFERRED TAXATION (continued)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

| | Fair value adjustment on mining rights HK$'000 | Fair value adjustments on property, plant and equipment and prepaid lease payments HK$'000 | Withholding tax arise from PRC subsidiaries (Note) HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2010 | (471,876) | (3,325) | (185) | 390 | (474,996) |
| Exchange realignment | (21,359) | (143) | – | – | (21,502) |
| Credit to profit or loss (note 29) | – | 338 | – | – | 338 |
| At 31 March 2011 | (493,235) | (3,130) | (185) | 390 | (496,160) |
| Reclassified as held for sales | 506,262 | 3,353 | – | – | 509,615 |
| Exchange realignment | (13,027) | (223) | – | – | (13,250) |
| At 31 March 2012 | – | – | (185) | 390 | 205 |

Note: Under the Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

At 31 March 2012, the Group had unused estimated tax losses of HK$72,218,000 (2011: HK$37,885,000) available to offset against future profits. A deferred tax asset has been recognised in respect of HK$2,364,000 (2011: HK$2,364,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$69,854,000 (2011: HK$35,521,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

## 25. INVENTORIES

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Raw materials | **10,618** | 11,491 |
| Work in progress | **5,300** | 6,601 |
| Finished goods | **9,003** | 8,689 |
| Coal and consumables | **1,205** | – |
| | **26,126** | 26,781 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 26. OTHER CURRENT FINANCIAL ASSETS

### Trade and bills receivables

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **23,034** | 20,141 |
| Bills receivable | **–** | 347 |
| | **23,034** | 20,488 |

Included in the Group's trade and bills receivables are receivables of approximately HK$13,686,000 (2011: HK$5,890,000) denominated in US$ which is the currency other than the functional currency of the respective group entities.

The Group allows an average credit period of 30 to 60 days to its customers. The aged analysis of trade and bills receivables presented based on the invoice date is stated as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **20,474** | 13,823 |
| 31 to 60 days | **906** | 3,337 |
| 61 to 90 days | **627** | 1,160 |
| 91 to 180 days | **1,027** | 2,168 |
| | **23,034** | 20,488 |

In determining the recoverability of trade and bills receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the report date. The Group considers the trade and bills receivables are determined to be impaired if they are aged for more than 180 days because based on the management past experience the balances are not recoverable. The directors believe that there is no further credit provision required as at the end of the reporting period.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$2,559,000 (2011: HK$6,661,000) as at 31 March 2012, which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 72 days (2011: 67 days) in the year of 2012.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 26. OTHER CURRENT FINANCIAL ASSETS (continued)

### Trade and bills receivables (continued)

***Ageing of trade receivables which are past due but not impaired***

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Overdue by 1 to 30 days | **1,000** | 3,494 |
| Overdue by 31 to 60 days | **955** | 1,874 |
| Overdue by 61 to 180 days | **604** | 1,293 |
| | **2,559** | 6,661 |

### Other receivables, deposits and prepayments

Other receivables and deposits mainly comprise amounts receivable from third parties and recoverable within one year.

Included in the Group's other receivables are receivables of approximately HK$8,000 (2011: HK$467,000) denominated in currencies other than the functional currency of the respective group entities.

### Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity date less than three months, carrying effective interest at approximately 0.32% (2011: 0.17%) per annum.

The bank balances and cash of approximately HK$20,073,000 (2011: HK$191,851,000) are denominated in currencies other than the functional currency of the respective group entities.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 27. INVESTMENTS HELD FOR TRADING

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Investments held for trading include: | | |
| Equity securities listed in Hong Kong, at fair value | **115** | 181 |
| Equity securities listed outside Hong Kong, at fair value | **3** | 3 |
| | **118** | 184 |

Fair values of listed investments held for trading are based on quoted market bid price in the active market.

As at 31 March 2012, the investments held for trading of approximately HK$3,000 (2011: HK$3,000) are denominated in currencies other than the functional currency of the respective group entities.

## 28. ASSETS CLASSIFIED AS HELD FOR SALE

On 7 September 2011, the Group has entered into a sales and purchase agreement with an independent third party, Inner-Mongolia Shuangxin Resources Group Co., Ltd. (the "Purchaser"). Pursuant to this sales and purchase agreement, the Group has conditionally agreed to dispose the Menggang Group (the "Proposed Disposal"), which operates the Group's Inner-Mongolia Coal Mining Operation, for a cash consideration of RMB1,503,000,000 ("Total Consideration"). In addition to the Total Consideration, the Purchaser is required to advance the Menggang Group RMB300,000,000 (the "Settlement Fund"), which is used to repay the Menggang Group's existing payables to third parties and the current account with the Company and its subsidiaries, before the completion of the Proposed Disposal. The Settlement Fund had been provided by the Purchaser during the current year and the Settlement Fund was payable to the Purchaser by the Menggang Group. As at 31 March 2012, unused fund was HK$27,554,000, which was deposited in a special purpose bank account of the Menggang Group.

The completion of the Proposed Disposal is subject to fulfilment of conditions precedent including, amongst others, the approval from shareholders of the Company and the approval from the relevant PRC government departments. On 10 February 2012, the resolution for the Proposed Disposal was passed by shareholders in Extraordinary General Meeting. Subsequent to the end of the reporting period, the Proposed Disposal has been approved by the relevant government departments and the legal title has been changed on 17 May 2012. On 30 May 2012, the Group and the Purchaser signed a confirmation letter for the proper transfer of control, thereafter, the Menggang Group ceased to be subsidiaries of the Group.

## 28. ASSETS CLASSIFIED AS HELD FOR SALE (continued)

The assets and liabilities attributable to the Menggang Group to be sold within twelve months have been classified as assets and liabilities held for sale and are separately presented in the consolidated statement of financial position. The Group's Inner-Mongolia Coal Mining Operation for the current year are presented as discontinued operation (see note 29) and the comparative figures were re-presented accordingly.

The Total Consideration of RMB1,503,000,000 (equivalent to approximately HK$1,845,083,000) are expected to exceed the net carrying amount of the relevant assets and liabilities of the Menggang Group of HK$1,603,858,000, accordingly, no impairment losses were recognised, neither when the operation was classified as held for sale nor at the end of the reporting period.

Major classes of assets and liabilities of the Menggang Group as at 31 March 2012 are as follows:

| | **31.3.2012** |
|---|---|
| | **HK$'000** |
| Property, plant and equipment (Note) | **346,500** |
| Prepaid lease payments | **26,176** |
| Mining rights | **2,058,378** |
| Deposits | **14,137** |
| Inventories | **3,081** |
| Other receivables and prepayment | **13,913** |
| Cash deposited in a special purpose account | **27,554** |
| Bank balances and cash | **2,931** |
| Total assets classified as held for sale | **2,492,670** |
| Other payables | **(7,029)** |
| Deferred tax liabilities | **(513,503)** |
| The Settlement Fund | **(368,280)** |
| Total liabilities associated with assets classified as held for sale | **(888,812)** |

Note: Subsequent to the date when the assets and liabilities of the Menggang Group were classified as held for sale but before the end of the reporting period, the Menggang Group purchased property, plant and equipment of HK$66,267,000.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 29. DISCONTINUED OPERATION

Discontinued operation represents the Group's Inner-Mongolia Coal Mining Operation (see note 28).

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss from discontinued operation is analysed as follows: | | |
| Other income, gain and loss | **2,152** | 26 |
| Administrative expenses | **(17,108)** | (15,026) |
| Other expenses (Note) | **(5,029)** | (7,743) |
| Finance costs | **–** | (543) |
| Tax credit | **277** | 338 |
| Loss for the year from discontinued operation | **(19,708)** | (22,948) |

Note: The Menggang Group has two coal mines, one of the mines is in the process of various technical and quality improvements to attain the safety standards in accordance with the new regulations imposed by the PRC authority. Accordingly, there are no coal production and sales of coal for both years. Other expenses represent the wages, depreciation expense, consumables and other costs incurred during this suspension period.

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss for the year from discontinued operation included the following: | | |
| Interest income | **883** | 24 |
| Depreciation of property, plant and equipment | **1,410** | 2,534 |
| Release of prepaid lease payments | **602** | 1,156 |
| Staff costs | | |
| Fees, salaries, bonus and other allowances | **4,195** | 4,750 |
| Retirement benefit scheme contributions | **1,094** | 378 |
| | **5,289** | 5,128 |
| Cash flows from discontinued operation: | | |
| Net cash flows used in operating activities | **(35,801)** | (21,738) |
| Net cash flows (used in) from investing activities | **(13,787)** | 50,125 |
| Net cash flows from financing activities | **50,340** | 51,963 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 30. OTHER CURRENT FINANCIAL LIABILITIES

### Trade payables

Trade payables principally comprise amounts outstanding for trade purchases. The average credit period taken for trade purchases is 30 to 60 days. The aged analysis of trade payables is stated as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **6,589** | 7,385 |
| 31 to 60 days | **3,686** | 3,464 |
| 61 to 90 days | **402** | 1,428 |
| 91 to 180 days | **480** | 2,534 |
| | **11,157** | 14,811 |

As at 31 March 2012, included in the Group's trade payables, HK$1,404,000 (2011: HK$329,000) are denominated in currencies other than the functional currency of the respective group entities.

### Other payables, deposits received and accruals

Other payables principally comprise amounts outstanding for ongoing costs.

As at 31 March 2012, included in other payables, deposits received and accruals, HK$428,000 (2011: HK$327,000) are denominated in currencies other than the functional currency of the respective group entities.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 31. RETIREMENT BENEFIT SCHEMES

The Group operated a pension scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"). The assets of the MPF Scheme are held separately in an independently administrated fund. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible Hong Kong employees' monthly relevant income but limited to the cap of HK$1,000 per month. The contributions are charged to profit or loss.

The employees of the Group's subsidiaries in the PRC and a subsidiary in France are members of state-managed retirement benefit schemes operated by respective local governments. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement benefit schemes. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss of HK$4,417,000 (2011: HK$3,167,000) represents contribution paid or payable to the schemes by the Group at rates specified in the rules of the schemes.

### Defined benefit plan

The Group operates an unfunded defined benefit plan for qualifying employees of its subsidiary in France. Under the scheme, the employees are entitled to retirement benefits which are based on the estimated final salary and the length of the service to the retirement. No other post-retirement benefits are provided.

## 32. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES

During the year ended 31 March 2010, the Group issued convertible notes with principal amount of US$135,509,000 (equivalent to approximately HK$1,050,345,000) with conversion price of HK$0.88 per share as part of the consideration for the acquisition of the entire equity interest in Merrymaking Investments Ltd. and Pleasing Results Ltd., which owned the Menggang Group ("CN1") from Real Power Holdings Limited and TRXY Development (HK) Limited (collectively referred as "the Vendors"). Ms. Li Shao Yu ("Ms. Li") has controlling interests over the Vendors, who is a substantial shareholder with significant influence to the Company. CN1 is denominated in US$, non-interest bearing and will mature on 24 January 2018. The Company has the right to cancel the CN1 up to the principal amount of US$2.33 million (equivalent to approximately HK$18.17 million) (the "Redemption Cap") at its option at any time prior to its maturity date, if any indemnity provided by the Vendors is not sufficient to keep the Group fully indemnified. During the year ended 31 March 2011, HK$11,446,000 indemnified liabilities were settled through cancellation of the same principal amount of CN1.

## 32. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES (continued)

Since the date of issuance of the CN1, the total principal amount of CN1 of approximately HK$670,289,000 were either converted into ordinary shares or cancelled and as at 31 March 2012 and 2011, the outstanding principal amount of CN1 was approximately HK$380,056,000.

The conversion rights of CN1 shall be exercised at any time prior to its maturity date by the convertible note holders if, immediately following the conversion (i) the Company will be able to meet the public float requirement under the Listing Rule; (ii) CN1 holders together with the parties acting in concert with it will not hold or control such amount of the Company's voting power at general meetings as may trigger a mandatory general offer under The Code on Takeovers and Mergers issued by the Securities and Future Commission (Takeover Code); or (iii) the outstanding amount of the CN1 will not be less than the remaining amount of the Redemption Cap. As at 31 March 2012, CN1 holders were not able to convert the CN1 as the conversion will cause the CN1 holders to hold or control such amount of the Company's voting power at general meetings to trigger a mandatory general offer under the Takeovers Code.

CN1 contains the following components:

(a) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interests, on initial recognition, of instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The effective interest rate of the liability component for CN1 is 8.52% per annum; and

(b) Embedded derivative represents the embedded conversion option of the CN1 to convert the liability into equity of the Company but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

During the year ended 31 March 2012, the Group issued convertible notes with principal amount of HK$575,000,000 with conversion price of HK$0.77 per share as part of the consideration for the acquisition of assets through purchase of subsidiaries (set out in note 37) ("CN2") from Tai Rong Xin Ye International Power Generation Inc. ("Tai Rong"), a company wholly owned by Ms. Li. CN2 is denominated in Hong Kong dollars, bear interest at 2% per annum and will mature on 15 June 2016.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 32. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES (continued)

The Company may redeem CN2 at 100% of the principal amount, together with the accrued interests, in whole or in part at any time before the maturity date of the CN2. The early redemption option is deemed to be closely related to the host debt instrument. CN2 are transferrable at any time at the option of the convertible note holder. The conversion right of CN2 shall be exercised at any time before the maturity date by the convertible note holder if, immediately following the conversion (i) the Company will be able to meet the public float requirement under the Listing Rule; (ii) CN2 holder together with the parties acting in concert with it will not hold or control more than 25% if the Company's voting powers at general meetings. As at 31 March 2012, Ms. Li together with the parties acting in concert with her owned more than 25% of the Company's share capital, as such, Ms. Li together with the parties acting in concert with her are prohibited from exercising any of the conversion rights of CN2.

Fair value of CN2 at initial recognition was approximately HK$575,000,000, of which HK$270,116,000 represented liability component and HK$304,884,000 represented equity component. As at 31 March 2012, the outstanding principal amount of CN2 was approximately HK$258,000,000.

CN2 contains the following components:

(a) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interests, on initial recognition, of instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The effective interest rate of the liability component for CN2 is 18.01% per annum. The liability component also includes the value of the early redemption option as the option is closely related to the host debt instrument; and

## 32. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES (continued)

(b) Equity component represents the embedded conversion option to convert the liability into equity of the Company and the conversion will be settled by the exchange of fixed amount of cash or another financial asset for a fixed number of the Company's own equity.

| | Liability | CN1 embedded conversion option | CN2 equity | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2010 | 369,294 | 392,765 | – | 762,059 |
| Conversion during the year | (181,913) | (205,794) | – | (387,707) |
| Imputed interest charged (Note 11) | 30,454 | – | – | 30,454 |
| Gain arising from change in fair value recognised in profit or loss | – | (6,089) | – | (6,089) |
| At 31 March 2011 | 217,835 | 180,882 | – | 398,717 |
| At initial recognition of CN2 | 270,116 | – | 304,884 | 575,000 |
| Coupon interest | (8,036) | – | – | (8,036) |
| Redemption during the year (Note i) | (248,824) | – | – | (248,824) |
| Transfer to accumulated loss upon redemption | – | – | (168,084) | (168,084) |
| Imputed interest charged (Note 11) | 49,002 | – | – | 49,002 |
| Gain arising from change in fair value recognised in profit or loss | – | (180,839) | – | (180,839) |
| Re-measurement of the liability components (Note ii) | 357,963 | – | – | 357,963 |
| **At 31 March 2012** (Note iii) | **638,056** | **43** | **136,800** | **774,899** |

Notes:

(i) On 28 November 2011 and 16 March 2012, the Company redeemed CN2 through exercise of early redemption option with principal amount of HK$137,000,000 and HK$180,000,000 respectively. The difference of HK$68,176,000 between the carrying value of the redeemed liability component of HK$248,824,000 with its fair value at the date of redemption, which is equivalent to the redemption price of HK$317,000,000, was charged to profit or loss as loss on redemption.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 32. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES (continued)

(b) (continued)

(ii) Subsequent to entering into the sales and purchase agreement in relation to the Proposed Disposal, the Company has reached agreement with the bondholders in which Ms. Li has controlling interests that, upon the completion of the Proposal Disposal, the Group will settle the entire outstanding amount of CN1 and CN2 by proceeds obtained from the Proposed Disposal. On 10 February 2012, the resolution for the Proposed Disposal was passed by shareholders in Extraordinary General Meeting and accordingly, the Group re-measured the carrying value of CN1 and CN2 to their present value of the estimated future cash flows, with difference being charged to profit or loss as "loss on re-measurement of the liability components of convertible notes".

(iii) As at 31 March 2012, the liability components of CN1 and CN2 with aggregated carrying amount of HK$638,056,000 and the embedded derivatives of CN1 of HK$43,000 were classified as current liabilities, as in the opinion of the directors, the entire outstanding amount of CN1 and CN2 will be settled within the next twelve months.

The fair value of the embedded conversion option is calculated using the Binomial Option Pricing Model. The inputs into the model at each conversion date and 31 March 2011 and 2012 were as follows:

| | **13 April 2010** | **16 November 2010** | **1 December 2010** | **31 January 2011** | **31 March 2011** | **31 March 2012** |
|---|---|---|---|---|---|---|
| Share price | HK$1.18 | HK$0.89 | HK$0.84 | HK$0.84 | HK$0.67 | HK$0.24 |
| Conversion price | HK$0.88 | HK$0.88 | HK$0.88 | HK$0.88 | HK$0.88 | HK$0.88 |
| Expected life (Note a) | 7.79 years | 7.20 years | 7.16 years | 6.99 years | 6.83 years | 0.25 years |
| Risk free rate (Note b) | 2.578% | 1.833% | 1.924% | 2.364% | 2.324% | 0.672% |
| Expected volatility (Note c) | 75.192% | 72.73% | 72.615% | 71.855% | 71.609% | 84.233% |

Notes:

(a) Expected life was the remaining life of the embedded conversion option. As at 31 March 2012, as the Company has reached agreement with the bondholder to settle the entire outstanding amount of CN1 by proceeds obtained from the Proposed Disposal, and the directors expect the settlement will be completed in approximately three months. The expected life has been revised accordingly.

(b) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

(c) Expected volatility for embedded conversion option was estimated by calculating the historical weekly share price volatility of the comparable companies engaged in similar businesses as the Group's various business segments.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 32. CONVERTIBLE NOTES AND EMBEDDED DERIVATIVES (continued)

The fair value of the embedded conversion option of CN2 at the date of issue is calculated using the Binomial Option Pricing Model. The inputs into the model at the date of issue were as follows:

| | 15 June 2011 |
|---|---|
| Share price (Note a) | HK$0.75 |
| Conversion price | HK$0.77 |
| Expected life (Note b) | 5 years |
| Risk free rate (Note c) | 1.422% |
| Expected volatility (Note d) | 74.47% |

Notes:

(a) Based on the quoted market price.

(b) Expected life was the expected remaining life of the embedded conversion option.

(c) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

(d) Expected volatility for embedded conversion option was estimated by calculating the historical weekly share price volatility of the comparable companies engaged in similar businesses as the Group's various business segments.

As at 31 March 2012, the liability component of CN1 amounted to HK$380,056,000 (2011: HK$217,835,000) and embedded derivatives amounted to HK$43,000 (2011: HK$180,882,000) are denominated in currency other than the function currency of the Company.

## 33. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | HK$'000 |
|---|---|
| At 1 April 2010 and 2011 | – |
| Acquisition of subsidiaries (note 37) | 6,145 |
| Unwinding of discounting effect for the year | 1,020 |
| Exchange adjustment | 124 |
| At 31 March 2012 | 7,289 |

The provision for restoration and environmental costs has been determined by the directors based on their best estimate. The discount rate applied is approximate 6%.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 34. SHARE CAPITAL

| | Number of shares | Share capital HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.05 each | | |
| Authorised: | | |
| At 1 April 2011 | 5,000,000,000 | 250,000 |
| Increased on 15 July 2011 | 5,000,000,000 | 250,000 |
| At 31 March 2012 | 10,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| At 31 March 2010 | 1,686,192,760 | 84,309 |
| Exercise of share options (Note a) | 400,000 | 20 |
| Placing of shares (Note b) | 363,740,000 | 18,187 |
| Shares issued upon conversion of convertible notes (Note c) | 361,130,793 | 18,057 |
| At 31 March 2011 | 2,411,463,553 | 120,573 |
| Placing of shares (Note d) | 574,513,810 | 28,726 |
| Shares issued upon conversion of convertible shares (Note e) | 941,558,441 | 47,078 |
| **At 31 March 2012** | **3,927,535,804** | **196,377** |

Details of the changes in the Company's share capital for the year ended 31 March 2011 and 2012 are as follows:

(a) During the year ended 31 March 2011, 400,000 new ordinary shares of the Company of HK$0.05 each were issued upon the exercise of share options. Details of options outstanding and movements during the year are set out in note 40.

(b) On 29 October 2010, private placements to independent private investors of 363,740,000 new shares of HK$0.05 each in the Company were completed, at placing price of HK$0.9 per share.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 34. SHARE CAPITAL (continued)

(c) During the year ended 31 March 2011, a total of 361,130,793 new ordinary shares of the Company of HK$0.05 each were issued upon the partial conversion of the CN1 with an aggregated principal amount of HK$317,795,000 at the conversion price of HK$0.88 per share.

(d) On 16 March 2012, private placements to independent private investors of 574,513,810 new shares of HK$0.05 each in the Company were completed, at placing price of HK$0.325 per share.

(e) During the year ended 31 March 2012, a total of 941,558,441 new ordinary shares of the Company of HK$0.05 each were issued upon the conversion of the convertible shares of the Company. Details are set out in note 35.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

## 35. CONVERTIBLE SHARES

On 15 June 2011, 941,558,441 convertible shares were issued by the Company as part of the consideration for the acquisition of assets through purchase of subsidiaries (set out in note 37). Fair value of the convertible shares at the date of issue, based on the market price of the ordinary shares of the Company was HK$706,169,000.

Convertible shares issued by the Company had the same right on return of capital on liquidation or otherwise, but did not carry voting right and did not entitle to dividend or other distribution. Each convertible share could be converted at any time into one ordinary share of the Company, given that, immediately following the conversion, the Company would be able to meet the public float requirement under the Listing Rules and the relevant convertible shareholder, together with the parties acting in concert with it would not hold or control such amount of the Company's voting power at general meetings as may trigger a mandatory general offer under the Takeovers Code. The convertible shares were transferrable at any time at the option of the convertible shareholder and the convertible shares were not redeemable and have no maturity period.

During the year ended 31 March 2012, all convertible shares issued were converted into ordinary shares of the Company.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 36. RESERVES

### Share premium

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning of year | **2,008,087** | 1,337,384 |
| Issue of new shares due to exercise of share options | **–** | 295 |
| Issue of new shares upon placing | **157,991** | 309,179 |
| Issue of new shares upon conversion of convertible shares | **659,091** | – |
| Issue of new shares upon conversion of convertible notes | **–** | 369,650 |
| Transaction costs attributable to issue of new shares upon placing | **(5,866)** | (8,572) |
| Transfer upon exercise of share options | **–** | 151 |
| At the end of year | **2,819,303** | 2,008,087 |

### Warrant reserve

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning of year | **–** | – |
| Issue of warrants (Note) | **6,547** | – |
| Transaction costs attributable to issue of warrant | **(216)** | – |
| At end of the year | **6,331** | – |

Note: On 10 June 2011, 436,488,000 warrants of the Company have been placed to independent placees at issue price of HK$0.015 per warrant at exercise price of HK$0.90 per share. The proceeds from the placing of the warrants was approximately HK$6,547,000. The warrants issued by the Company have been classified as equity instrument, which is stated at the proceeds received, net of direct issue cost.

### Statutory surplus reserve

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning and the end of year | **3,539** | 3,539 |

## 36. RESERVES (continued)

### Convertible note equity reserve

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning of year | **–** | – |
| Issue of convertible notes | **304,884** | – |
| Transfer to accumulated losses upon redemption | **(168,084)** | – |
| At end of the year | **136,800** | – |

### Share option reserve

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning of year | **16,585** | 470 |
| Transfer to share premium upon exercise of share options | **–** | (151) |
| Transfer upon forfeiture of share options | **(133)** | (157) |
| Recognition of equity-settled share-based payments | **18,267** | 16,423 |
| At the end of year | **34,719** | 16,585 |

### Asset revaluation reserve

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning of year | **1,400** | 2,639 |
| Fair value changes on available-for sale-investments | **(289)** | (407) |
| Reclassification adjustment to profit or loss on impairment loss | **715** | – |
| Reclassification adjustment to profit or loss upon disposal | **–** | (832) |
| At the end of year | **1,826** | 1,400 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 36. RESERVES (continued)

### Special reserve

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| At the beginning and the end of year | **(5,754)** | (5,754) |

### Translation reserve

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| At the beginning of year | **85,700** | 9,501 |
| Exchange differences arising on translation of foreign operations | **96,256** | 76,199 |
| At the end of year | **181,956** | 85,700 |

## 37. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES

On 28 January 2011, the Company, Champ Universe Limited, a wholly owned subsidiary of the Company and Tai Rong entered into a sale and purchase agreement, pursuant to which, Champ Universe Limited agreed to acquire the entire interest of Venture Path Limited and its subsidiaries (collectively referred as the "Venture Path Group") from Tai Rong at an aggregate consideration with fair value of HK$1,531,169,000, satisfied by (i) HK$250,000,000 cash consideration; (ii) HK$575,000,000 by issue of the convertible notes (see note 32); and (iii) HK$706,169,000 by the issue of the convertible shares (see note 35). The Venture Path Group owns Baicheng Wenzhou which is principally engaged in the Xinjiang Coal Mining Operation. During the year ended 31 March 2011, the Company paid HK$250,000,000 to Tai Rong as deposits for this acquisition. The acquisition was completed on 15 June 2011.

## 37. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES (continued)

Assets and liabilities recognised at the date of acquisition:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 19,251 |
| Prepaid lease payments | 1,952 |
| Mining right | 1,520,465 |
| Deposits | 5,988 |
| Inventories | 780 |
| Other receivables | 1,132 |
| Bank balances and cash | 273 |
| Other payables | (11,168) |
| Tax liabilities | (1,359) |
| Provision for restoration and environmental costs | (6,145) |
| Net assets and liabilities acquired | 1,531,169 |
| Total consideration satisfied by: | |
| Cash deposit paid and included in deposit paid for acquisition of subsidiaries as at 31 March 2011 | 250,000 |
| Convertible notes | 575,000 |
| Convertible shares | 706,169 |
| | 1,531,169 |
| Net cash outflow arising on acquisition: | |
| Net cash consideration paid | – |
| Bank balances and cash acquired | 273 |
| | 273 |

## 38. PLEDGE OF ASSETS

At 31 March 2012, the Group has pledged its leasehold land and buildings with carrying values of HK$2,914,000 (2011: HK$3,016,000) to secure the unutilised general banking facilities granted to the Group.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 39. COMMITMENTS

### (a) Operating lease commitments

***The Group as lessee***

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Within one year | **8,108** | 5,486 |
| In the second to fifth year inclusive | **12,307** | 6,025 |
| | **20,415** | 11,511 |

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for lease term of two to five years and rentals are fixed over the relevant lease term.

***The Group as lessor***

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Within one year | **420** | – |
| Within two to five years | **1,799** | – |
| After five years | **77** | – |
| | **2,296** | – |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 39. COMMITMENTS (continued)

### (b) Capital commitments in respect of addition of property, plant and equipment

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of addition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **89,569** | 130,328 |
| Capital expenditure in respect of addition of property, plant and equipment authorised but not contracted for | **189,038** | 167,330 |

### (c) Capital commitments in respect of acquisition of assets through purchase of subsidiaries

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of assets through purchase of subsidiaries (Note) | **–** | 1,300,000 |

Note: The acquisition of assets through purchase of subsidiaries was completed during the year as set out in note 37.

### (d) Other commitment

In accordance with the relevant rules and regulations issued by the Xinjiang Regulators in 2008, Baicheng Wenzhou was required to pay an ecological rehabilitation deposit upon the receipt of formal notice from the Xinjiang Regulators. Baicheng Wenzhou received the formal notification on 30 October 2009. The notification required payment of a total of RMB8,036,000 to a specific bank account opened by Baicheng Wenzhou by six installments. Baicheng Wenzhou is not allowed to withdraw the deposit until the completion of all ecological rehabilitation activities after the cessation of mining activities. As at 31 March 2012, RMB4,663,000 (equivalent to approximately HK$5,724,000) was deposited in the bank account and recognised as long term deposits and the unsettled deposits of RMB3,373,000 (equivalent to approximately HK$4,139,000) was regarded as commitment to the Group.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 40. SHARE OPTION SCHEMES

The Company had two share option schemes, including pre-listing share option scheme (the "Pre-Listing Scheme") and share option scheme (the "Post-Listing Scheme"), which were both adopted on 16 May 2006. As at 1 April 2010, all the share options granted under Pre-Listing Scheme were either exercised, forfeited or lapsed. The major terms of the Post-Listing Scheme are set out below.

(i) The purpose was to provide incentives to the participants;

(ii) The participants included any full-time or part-time employees, executives and officers of the Company and any of its subsidiaries (including executive, non-executive directors and independent non-executive directors of the Company and any of its subsidiaries) and business consultants and legal and other professional advisors of the Company or its subsidiaries which, in the opinion of the Company's board of directors, has or had made contribution to the Group;

(iii) The maximum number of shares in respect of which options might be granted under the Post-Listing Scheme must not exceed 30% of the issued share capital of the Company from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12 months period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a substantial shareholder or an independent non-executive director in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders;

(iv) In relation to each grantee of the options granted under the Post-Listing Scheme, the right of the grantee to exercise the option shall vest in three stages: 30% of share options granted (rounded down to the nearest whole number of shares) will vest from the expiry of one year from the acceptance date of the option (the "Acceptance Date") up to the day immediately before the fourth anniversary of the Acceptance Date; 30% of share options granted (rounded down to the nearest whole number of shares) will vest from the expiry of two years from the Acceptance Date up to the day immediately before the fifth anniversary of the Acceptance Date; and 40% of the share options granted (round down to the nearest whole number of shares) will vest from the expiry of three years from the Acceptance Date up to the day immediately before the sixth anniversary of the Acceptance Date;

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 40. SHARE OPTION SCHEMES (continued)

(v) The exercise price of an option will be determined by the board of directors of the Company and will not be less than the highest of:

- the closing price of the share on the date of grant;
- the average closing price of the share for the 5 business days immediately preceding the date of grant;
- the nominal value of the share; and

(vi) A consideration of HK$1 is payable on acceptance of the offer of grant of options.

Details of the share options outstanding and movements during the two years were as follows:

| Grantee | Name of the scheme | Date of grant | Exercising period | Exercise price per share HK$ | Number of share options: Outstanding at 1 April 2010 | Granted during the year | Forfeited during the year | Exercised during the year (Note a) | Outstanding at 31 March 2011 | Granted during the year | Lapsed during the year | Forfeited during the year | Outstanding at 31 March 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | | | |
| Ma Lishan | Post-listing Scheme | 27.9.2010 | 27.9.2011 to 26.9.2014 | 0.800 | – | 6,000,000 | – | – | 6,000,000 | – | – | – | 6,000,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2012 to 26.9.2015 | 0.800 | – | 6,000,000 | – | – | 6,000,000 | – | – | – | 6,000,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2013 to 26.9.2016 | 0.800 | – | 8,000,000 | – | – | 8,000,000 | – | – | – | 8,000,000 |
| Fung Ka Pun (Note b) | Post-listing Scheme | 8.6.2007 | 8.6.2010 to 7.6.2013 | 0.860 | 240,000 | – | – | – | 240,000 | – | – | – | 240,000 |
| | Post-listing Scheme | 1.4.2010 | 1.4.2011 to 31.3.2014 | 1.202 | – | 6,000,000 | – | – | 6,000,000 | – | – | – | 6,000,000 |
| | Post-listing Scheme | 1.4.2010 | 1.4.2012 to 31.3.2015 | 1.202 | – | 6,000,000 | – | – | 6,000,000 | – | – | – | 6,000,000 |
| | Post-listing Scheme | 1.4.2010 | 1.4.2013 to 31.3.2016 | 1.202 | – | 8,000,000 | – | – | 8,000,000 | – | – | – | 8,000,000 |
| Ng Cheuk Fan, Keith (Note b) | Post-listing Scheme | 27.9.2010 | 27.9.2011 to 26.9.2014 | 0.800 | – | 1,500,000 | – | – | 1,500,000 | – | – | – | 1,500,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2012 to 26.9.2015 | 0.800 | – | 1,500,000 | – | – | 1,500,000 | – | – | – | 1,500,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2013 to 26.9.2016 | 0.800 | – | 2,000,000 | – | – | 2,000,000 | – | – | – | 2,000,000 |
| Mak Yiu Tong (Note e) | Post-listing Scheme | 27.9.2010 | 27.9.2011 to 26.9.2014 | 0.800 | – | 600,000 | – | – | 600,000 | – | – | – | 600,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2012 to 26.9.2015 | 0.800 | – | 600,000 | – | – | 600,000 | – | – | – | 600,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2013 to 26.9.2016 | 0.800 | – | 800,000 | – | – | 800,000 | – | – | – | 800,000 |
| Fung Wing Ki, Vicky (Note b) | Post-listing Scheme | 27.9.2010 | 27.9.2011 to 26.9.2014 | 0.800 | – | 600,000 | – | – | 600,000 | – | – | – | 600,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2012 to 26.9.2015 | 0.800 | – | 600,000 | – | – | 600,000 | – | – | – | 600,000 |
| | Post-listing Scheme | 27.9.2010 | 27.9.2013 to 26.9.2016 | 0.800 | – | 800,000 | – | – | 800,000 | – | – | – | 800,000 |
| Tam Hok Lam, Tommy (Note c) | Post-listing Scheme | 8.6.2007 | 12.6.2010 to 11.6.2013 | 0.860 | 160,000 | – | – | (160,000) | – | – | – | – | – |
| Hui Ka Wah, Ronnie (note d) | Post-listing Scheme | 8.6.2007 | 9.6.2010 to 8.6.2013 | 0.860 | 160,000 | – | (160,000) | – | – | – | – | – | – |
| Leung Man Chun, Paul (note d) | Post-listing Scheme | 8.6.2007 | 12.6.2010 to 11.6.2013 | 0.860 | 160,000 | – | (160,000) | – | – | – | – | – | – |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 40. SHARE OPTION SCHEMES (continued)

| Grantee | Name of the scheme | Date of grant | Exercising period | Exercise price per share HK$ | Number of share options: Outstanding at 1 April 2010 | Granted during the year | Forfeited during the year | Exercised during the year (Note a) | Outstanding at 31 March 2011 | Granted during the year | Lapsed during the year | Forfeited during the year | Outstanding at 31 March 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Other employees | Post-Listing Scheme | 8.6.2007 | 8.6.2008 to 5.7.2011 | 0.860 | 105,000 | – | – | (75,000) | 30,000 | – | (15,000) | (15,000) | – |
| | Post-Listing Scheme | 8.6.2007 | 8.6.2009 to 5.7.2012 | 0.860 | 105,000 | – | – | (75,000) | 30,000 | – | – | (15,000) | 15,000 |
| | Post-Listing Scheme | 8.6.2007 | 8.6.2010 to 5.7.2013 | 0.860 | 140,000 | – | – | – | 140,000 | – | – | (120,000) | 20,000 |
| | Post-Listing Scheme | 18.3.2008 | 18.3.2010 to 17.3.2013 | 0.536 | 90,000 | – | – | (90,000) | – | – | – | – | – |
| | Post-Listing Scheme | 18.3.2008 | 18.3.2011 to 17.3.2014 | 0.536 | 120,000 | – | (120,000) | – | – | – | – | – | – |
| | Post-Listing Scheme | 27.8.2010 | 27.8.2011 to 26.8.2014 | 0.800 | – | 2,400,000 | (450,000) | – | 1,950,000 | – | – | – | 1,950,000 |
| | Post-Listing Scheme | 27.8.2010 | 27.8.2012 to 26.8.2015 | 0.800 | – | 2,400,000 | (450,000) | – | 1,950,000 | – | – | – | 1,950,000 |
| | Post-Listing Scheme | 27.8.2010 | 27.8.2013 to 26.8.2016 | 0.800 | – | 3,200,000 | (600,000) | – | 2,600,000 | – | – | – | 2,600,000 |
| | Post-Listing Scheme | 27.9.2010 | 27.9.2011 to 26.9.2014 | 0.800 | – | 10,770,000 | (600,000) | – | 10,170,000 | – | – | – | 10,170,000 |
| | Post-Listing Scheme | 27.9.2010 | 27.9.2012 to 26.9.2015 | 0.800 | – | 10,770,000 | (600,000) | – | 10,170,000 | – | – | – | 10,170,000 |
| | Post-Listing Scheme | 27.9.2010 | 27.9.2013 to 26.9.2016 | 0.800 | – | 14,360,000 | (800,000) | – | 13,560,000 | – | – | – | 13,560,000 |
| | Post-Listing Scheme | 8.4.2011 | 8.4.2012 to 8.4.2015 | 0.740 | – | – | – | – | – | 2,160,000 | – | (210,000) | 1,950,000 |
| | Post-Listing Scheme | 8.4.2011 | 8.4.2013 to 8.4.2016 | 0.740 | – | – | – | – | – | 2,160,000 | – | (210,000) | 1,950,000 |
| | Post-Listing Scheme | 8.4.2011 | 8.4.2014 to 8.4.2017 | 0.740 | – | – | – | – | – | 2,880,000 | – | (280,000) | 2,600,000 |
| | | | | | 1,280,000 | 92,900,000 | (3,940,000) | (400,000) | 89,840,000 | 7,200,000 | (15,000) | (850,000) | 96,175,000 |
| Weighted average exercise price | | | | | 0.807 | 0.887 | 0.797 | 0.787 | 0.890 | 0.740 | 0.860 | 0.761 | 0.880 |
| Exercisable at the end of the year | | | | | | | | | 440,000 | | | | 27,095,000 |

Notes:

(a) The weighted average closing price of the Company's shares at the dates of exercise was HK$0.941 per share.

(b) Mr. Fung Ka Pun, Mr. Ng Cheuk Fan, Keith and Ms. Fung Wing Ki, Vicky were resigned as directors of the Company effective from 21 September 2011.

(c) Mr. Tam Hok Lam, Tommy was resigned as the director of the Company on 29 March 2012.

(d) Dr. Hui Ka Wah, Ronnie and Mr. Leung Man Chun, Paul were resigned as directors of the Company on 27 September 2010.

(e) Mr. Mak Yiu Tong was resigned as director of the Company on 31 May 2012.

On 8 April 2011, the Company granted 7,200,000 options at exercise price of HK$0.74 per share to employees under the Post-Listing Scheme. The fair value of the share options granted determined at the dates of grant using Trinomial Option Pricing Model was approximately HK$2,965,000. The fair value of the share option granted will be expensed on straight-line basis over the vesting period from 1 to 3 years.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 40. SHARE OPTION SCHEMES (continued)

In determining the fair value of the share options granted during the year, Trinomial Option Pricing Model has been used. The input into the model were as follows:

| | Notes | **8 April 2011** |
|---|---|---|
| Share price at grant date | | HK$0.74 |
| Exercise price | | HK$0.74 |
| Expected life of options | a | 4 to 6 years |
| Expected volatility | b | 63.34% to 68.67% |
| Risk free rate | c | 1.60% to 2.22% |

Notes:

(a) The expected life of options ranges from 4 to 6 years from the date of grant.

(b) Expected volatility was estimated by calculating the historical weekly share price volatility of the comparable companies engaged in similar businesses as the Group's various business segments.

(c) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

The Trinomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share option are based on directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The closing price of the Company's shares immediately before 8 April 2011 being the date of grant of the share options during the year, was HK$0.74.

In the current year, share option expenses of approximately HK$18,267,000 (2011: HK$16,423,000) have been recognised with a corresponding credit in the Group's share options reserve.

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 41. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

(i) During the year ended 31 March 2012, the Group acquired the entire interest of the Venture Path Group from Tai Rong satisfied by (i) issue of convertible notes with fair value of HK$575,000,000; (ii) issue of convertible shares with fair value of HK$706,169,000; and (iii) cash of HK$250,000,000.

(ii) During the year ended 31 March 2012, the Group early redeemed CN2 with principal amount of HK$317,000,000 at par value, which was owned by Tai Rong.

(iii) During the year ended 31 March 2012, imputed interest of HK$49,002,000 (2011: HK$30,461,000) was charged for the convertible notes with the bondholders owned by Ms. Li.

(iv) During the year ended 31 March 2012, Tai Rong converted 279,347,000 convertible shares into 279,347,000 new ordinary shares of the Company.

(v) During the year ended 31 March 2011, the Vendors exercised its conversion rights embedded in CN1 and converted into 221,710,877 new ordinary shares of the Company.

The remuneration of directors and other members of key management during the year was as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other short-term benefits | **7,712** | 10,085 |
| Post-employment benefits | **48** | 72 |
| Share-based payments | **12,669** | 14,326 |
| | **20,429** | 24,483 |

The remuneration of directors and key executive is determined by the remuneration committee having regard to the performance of individuals and market trends.

Included in the remuneration of the directors and other members of key management, during the year ended 31 March 2012, the remuneration of a substantial shareholder who can exercise significant influence to the Group who provided service to the Group was approximately HK$4,682,000 (2011: HK$3,569,000).

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 42. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 March 2012, as part of the consideration for the acquisitions of assets through purchase of subsidiaries, the Group issued convertible notes and convertible shares with fair value of HK$575,000,000 and HK$706,169,000 respectively for this transaction. In addition, cash consideration of HK$250,000,000 was paid in prior year as deposit paid for acquisition of subsidiaries.

(ii) During the year ended 31 March 2012, convertible shares with carrying amount of HK$706,109,000 have been converted into 941,558,441 ordinary shares of the Company.

(iii) As at 31 March 2012, accrued coupon of CN2 redeemed during the year ended 31 March 2012 of HK$6,783,000 was not yet settled and included in other payables, deposits received and accruals.

(iv) During the year ended 31 March 2012, addition of property, plant and equipment of 4,983,000 (2011: HK$82,869,000) was acquired by utilisation of deposits paid in the prior year.

(v) During the year ended 31 March 2011, convertible notes with aggregated principal amount of HK$317,795,000 was converted into 361,130,793 ordinary shares of the Company.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 March 2012 and 2011 are as follows:

| Name of subsidiary | Place of incorporation or registration/ operations | Class of shares held | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | **2012** | | 2011 | | |
| | | | | **Directly** | **Indirectly** | Directly | Indirectly | |
| Winbox (BVI) Limited | The British Virgin Islands ("BVI") | Ordinary | US$460 | **100%** | **-** | 100% | – | Investment holding |
| Win Team Investments Limited | BVI | Ordinary | US$1 | **100%** | **-** | 100% | – | Investment holding |
| Champ Universe Limited | BVI | Ordinary | US$1 | **100%** (Note iii) | **-** | – | – | Investment holding |
| Baicheng Wenzhou | The PRC (Note ii) | Contributed capital | RMB9,280,000 | **-** | **100%** (Note iii) | – | – | Development of underground coking coal mine |
| Dardel S.A.S. | France | Ordinary | EUR470,000 | **-** | **100%** | – | 100% | Sale of quality plastic and paper boxes for luxury consumer goods |

# Notes to the Consolidated Financial Statements

*For the year ended 31 March 2012*

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or registration/ operations | Class of shares held | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company 2012 Directly | 2012 Indirectly | 2011 Directly | 2011 Indirectly | Principal activities |
|---|---|---|---|---|---|---|---|---|
| Donguang Ever Green Plastic Manufacturing Company Limited | The PRC (Note ii) | Contributed capital | US$1,000,000 | **-** | **100%** | – | 100% | Manufacture and sale of quality plastic and paper boxes for luxury consumer goods and the provision of sub-contracting services (intra group service) |
| Fairich Investment Limited | Hong Kong | Ordinary | HK$2 | **-** | **100%** | – | 100% | Investment holding |
| Grand Cast Limited | Hong Kong | Ordinary | HK$2 | **-** | **100%** | – | 100% | Investment holding |
| Golden Hope Holdings Limited | Hong Kong | Ordinary | HK$1 | **-** | **100%** | – | 100% | Investment holding |
| Merrymaking Investment Limited | BVI | Ordinary | US$10,000 | **-** | **100%** | – | 100% | Investment holding |
| Tianyu Coal Company Limited | The PRC (Note ii) | Contributed capital | RMB170,000,000 | **-** | **100%** | – | 100% | Development of underground coking coal mine |
| Tianyu Gongmao Company Limited | The PRC (Note ii) | Contributed capital | RMB75,500,000 | **-** | **100%** | – | 100% | Exploration of coal business, coal mining and development of underground coking coal mine |
| Pleasing Results Limited | BVI | Ordinary | US$10,000 | **-** | **100%** | – | 100% | Investment holding |
| Venture Path Limited | BVI | Ordinary | US$10,000 | **-** | **100%** | – | – | Investment holding |
| Winbox Company Limited | Hong Kong | Ordinary | Ordinary shares HK$5,500,000<br><br>Non-voting deferred shares HK$5,500,000 (Note i) | **-** | **100%** | – | 100% | Sale of quality plastic and paper boxes for luxury consumer goods |
| Winbox Plastic Manufacturing (Shenzhen) Company Limited | The PRC (Note ii) | Contributed capital | HK$30,000,000 | **-** | **100%** | – | 100% | Manufacture and sale of quality plastic and paper boxes for luxury consumer goods and the provision of sub-contracting services (intra group service) |
| Winpac Europe Limited | United Kingdom | Ordinary | £ 500,000 | **-** | **100%** | – | 100% | Investment holding |
| Winpac International Limited | Hong Kong | Ordinary | HK$2 | **-** | **100%** | – | 100% | Investment holding |
| Winpac Trading Co. Limited | Hong Kong | Ordinary | HK$500,000 | **-** | **100%** | – | 100% | Sale of quality plastic and paper boxes for luxury consumer goods |
| Winpac SARL | France | Ordinary | EUR10,000 | **-** | **100%** | – | 100% | Property holding |

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

| Name of subsidiary | Place of incorporation or registration/ operations | Class of shares held | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | 2012 | | 2011 | | |
| | | | | Directly | Indirectly | Directly | Indirectly | |
| Wuhai City Menggang Industrial Development Co., Ltd. | The PRC (Note ii) | Contributed capital | HK$400,000,000 | - | 100% | – | 100% | Investment holding |
| Hao Tian Management (Hong Kong) Limited | Hong Kong | Ordinary | HK$10,000 | - | 100% | – | 100% | Investment holding and provision of management services |

Notes:

(i) The holders of the non-voting deferred shares are not entitled to receive notice of or to attend or vote at any general meeting of this subsidiary, and not entitle to participate in the profits of this subsidiary. On a winding up, the holders of the non-voting deferred shares are entitled to be paid out of the surplus assets a return of the capital paid up on such shares after a total of HK$100,000,000 has been distributed in respect of each of the shares.

(ii) These subsidiaries were established in the PRC as wholly foreign-owned enterprise. The English names of these subsidiaries were for identification purpose only.

(iii) These subsidiaries were set up during the year for acquiring Venture Path Limited. For details, please refer to note 37.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 44. EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 28, on 30 May 2012, the Group and the Purchaser signed a confirmation for the proper transfer of the Menggang Group, thereafter, the Menggang Group ceased to be subsidiaries of the Group. The directors of the Company expect that the Total Consideration will be settled by end of June 2012 and the proceeds will be used to settle the entire outstanding principal amount of CN1 and CN2 of HK$380,056,000 and HK$258,000,000 respectively.

The Company is in the process of assessing the financial impact arising from the completion of the Proposed Disposal.

# Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | **2012**<br>**HK$'000** |
| Revenue | 176,803 | 166,505 | 97,029 | 122,099 | **143,079** |
| Profit (loss) for the year attributable to owners of the Company | 22,180 | (22,871) | (469,409) | (96,646) | **(378,458)** |

## ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | **2012**<br>**HK$'000** |
| Total assets | 251,724 | 198,029 | 2,502,224 | 2,744,900 | **4,314,591** |
| Total liabilities | (44,313) | (20,932) | (1,403,942) | (945,065) | **(1,580,030)** |
| | 207,411 | 177,097 | 1,098,282 | 1,799,835 | **2,734,561** |
| Equity attributable to owners of the Company | 207,411 | 177,097 | 1,098,282 | 1,799,835 | **2,734,561** |