DeTeam Company Limited

弘海有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code : 65

Annual Report **2012**

* *For identification purpose only*

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CORPORATE PROFILE

Board of Directors

Executive Directors
Mr. Mak Shiu Chung, Godfrey *(Co-Chairman)*
Mr. Xu Bin *(Co-Chairman)*
Mr. Zhang Chao Liang
Mr. Wang Hon Chen

Independent Non-Executive Directors
Mr. Kwok Chi Shing
Mr. Tsang Wai Sum
Mr. Yu Yang
Mr. Huang Shao Ru *(appointed on 2 April 2013)*

Compliance Officer

Mr. Mak Shiu Chung, Godfrey

Company Secretary

Mr. Wong Choi Chak FCCA, CPA

Authorised Representatives

Mr. Mak Shiu Chung, Godfrey
Mr. Zhang Chao Liang

Qualified Accountant

Mr. Wong Choi Chak FCCA, CPA

Audit Committee Members

Mr. Kwok Chi Shing *(Chairman)*
Mr. Tsang Wai Sum
Mr. Yu Yang
Mr. Huang Shao Ru *(appointed on 2 April 2013)*

Remuneration & Nomination Committee

Mr. Tsang Wai Sum *(Chairman)*
Mr. Mak Shiu Chung, Godfrey
Mr. Yu Yang
Mr. Huang Shao Ru *(appointed on 2 April 2013)*

Registered Office

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Website

www.irasia.com/listco/hk/deteam

Head Office and Principal Place of Business in Hong Kong

Suite No.3, 31st Floor
Sino Plaza
255-257 Gloucester Road
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
China Citic Bank International Limited

Auditor

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

Legal Advisers

As to Hong Kong Law:
Morrison & Foerster

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman

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CHAIRMAN'S STATEMENT

To the Shareholders

Final Results

On behalf of the board (the "Board") of directors (the "Directors") of DeTeam Company Limited (the "Company"), I am pleased to present the audited consolidated results of the Company (together with its subsidiaries, collectively referred to as the "Group") for the year ended 31 December 2012.

Business Review

In 2012, the Group's main business were the production and sale of plastic woven bags and the trading of coal in the People's Republic of China (the "PRC"). Following the acquisition of Pak Yip Holdings Investment Limited ("Pak Yip") in May 2012, the Group was also involved in low-rank coal upgrading business.

In November 2012, the mining licence for Jinyuanli underground coal mine was granted and all the other relevant licences (including the safety production licence and coal production licence) were granted in March 2013 subsequently. The commencement of commercial production marked a new chapter for the Group.

Changchun Yicheng continued to generate profits for the Group and we expect the plastic woven bags business to continue to grow steadily in the future.

In May 2012, the Company acquired the entire issued share capital of Pak Yip. Changchun Guochan Energy, a subsidiary of Pak Yip, operates a low rank coal upgrading plant in Changchun, PRC, with an annual production capacity of 500,000 tonnes. Various tests of the low-rank coal delivered from different coal mines in Inner Mongolia, PRC had shown results of an average 60% increase in net calorific value on an as received basis (from an average of 3,000 kcal/kg to 5,000 kcal/kg) after upgrading.

According to the announcement dated 31 December 2011 issued by The Ministry of Science and Technology of the People's Republic of China, upgrading low-rank coal project assumed by Changchun Guochuan Energy has been identified as one of the 863 environmental projects in 2012.

In July 2012, a framework agreement was entered into between Beijing Guochuan New Energy Development Co., Ltd. ("Beijing Guochuan") and China Railway Resources Investment Ltd. ("China Railway Resources"), pursuant to which Beijing Guochuan, a wholly owned subsidiary of Pak Yip agreed to cooperate in the establishment of production facilities for upgrading of low-rank coal, with an annual production capacity of not less than 2,000,000 tonnes of upgraded coal.

In July 2012, an investment agreement was entered into between Beijing Guochuan and the People's Government of Xilinhaote, pursuant to which, Beijing Guochuan and the People's Government of Xilinhaote agreed to cooperate in the construction and operation of the production facilities used to upgrade low-rank coal. The construction work of production facilities would be conducted in two phases. Subject to the completion of the two phases of construction, the annual production capacity of the production facilities would be expected to reach ten million tonnes of upgraded coal.

In December 2012, a memorandum of understanding was entered into between Beijing Guochuan and Dalian Shipbuilding, pursuant to which, Beijing Guochuan agreed to appoint Dalian Shipping Industry Equipment Manufacturing Co., Ltd. to be responsible for the affairs of the project management and contracting of the Xilinhaote coal upgrading project.

CHAIRMAN'S STATEMENT

Prospects

Under PRC's 12th Five Year plan and PRC new leadership's commitment to cutting pollution and use cleaner forms of energy, coal upgrading is a lucrative business prone to significant growth. We believe that our involvement in coal upgrading business together with the partnership of state-owned enterprises and local government are all important strategies to bring the Group to a level of greater return.

Appreciation

Our employees are the Group's most valuable assets, and have been key to the Group's success. On behalf of the Board, we would like to express our sincere gratitude to all employees of the Group for their dedication and contribution during the year and in the past.

Mak Shiu Chung, Godfrey and Xu Bin
Co-Chairmen

Hong Kong, 28 March 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial highlights

	2012 HK$'000	2011 HK$'000	Change
Operating Results			
Turnover	430,506	494,496	-13%
Gross profit	76,007	68,865	10%
Operating expenses	145,572	81,092	80%
Finance costs	7,444	11,125	-33%
Loss for the year attributable to owners of the Company	(25,385)	(2,292)	1,008%
Loss per share – basic	HK(2.89) cents	HK(0.26) cent	1,012%
Financial Position			
Total assets	990,277	919,531	8%
Bank and cash balances	34,538	37,064	-7%
Equity attributable to owners of the Company	476,299	453,007	5%
Financial Ratios			
Current ratio	0.91	1.10	-17%
Gearing ratio	0.03	0.10	-70%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of financial information

The following is a summary of the published consolidated results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate:

Results

	Year ended 31 December				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Turnover	430,506	494,496	320,430	327,259	364,150
(Loss)/Profit from operations	(67,042)	(11,276)	18,744	45,903	68,286
Finance costs	(7,444)	(11,125)	(4,557)	(2,524)	(344)
(Loss)/Profit before tax	(74,486)	(22,401)	14,187	43,379	67,942
Income tax credit/(expense)	10,777	217	184	(11,778)	(14,109)
(Loss)/Profit for the year	(63,709)	(22,184)	14,371	31,601	53,833
Attributable to:					
Owners of the Company	(25,385)	(2,292)	21,037	32,170	50,956
Non-controlling interests	(38,324)	(19,892)	(6,666)	(569)	2,877
	(63,709)	(22,184)	14,371	31,601	53,833

Summary of financial information (Continued)

Assets, liabilities and equity

	As at 31 December				
				(Restated)	
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	713,536	642,832	569,316	417,908	238,485
Current assets	276,741	276,699	351,188	275,768	296,912
TOTAL ASSETS	990,277	919,531	920,504	693,676	535,397
Non-current liabilities	90,589	59,383	31,556	5,315	2,863
Current liabilities	303,848	251,853	279,820	132,575	44,552
TOTAL LIABILITIES	394,437	311,236	311,376	137,890	47,415
NET ASSETS	595,840	608,295	609,128	555,786	487,982
Attributable to:					
Owners of the Company	476,299	453,007	440,464	414,276	397,966
Non-controlling interests	119,541	155,288	168,664	141,510	90,016
TOTAL EQUITY	595,840	608,295	609,128	555,786	487,982

Notes:

The results of the Group for the years ended 31 December 2008, 2009, 2010 and 2011 of the assets, liabilities and equity of the Group as at these dates have been extracted from audited financial statements of the Company for the respective years and restated as appropriate.

The results of the Group for the year ended 31 December 2012 and of the assets, liabilities and equity of the Group as at 31 December 2012 are those set out on pages 30 and 32 of the financial statements respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial review

As a result of an increase in the selling prices of all the plastic woven bags, Changchun Yicheng recorded a segment profit of approximately HK$51,682,000 during the year. On the other hand, due to the share-based payments that incurred as a non-cash expense arising from share options granted by the Company in January 2012; an impairment of property, plant and equipment in Jinyuanli underground coal mine; and lower coal production and declining coal price, the Group's loss was widened comparing to last year. The Group recorded a loss attributable to owners of the Company of approximately HK$25,385,000 for the year ended 31 December 2012, as compared to loss attributable to owners of the Company of approximately HK$2,292,000 for the same period in 2011. The Group's turnover was approximately HK$430,506,000 representing a decrease of approximately HK$63,990,000 as compared with HK$494,496,000 last year. It was a result of a decline in the selling price of coal in comparison with the correspondence year and a decrease in total sales of coal of approximately 38,408 tons in the underground coal mine as compared to 2011. The result of the Group's coal business for the year ended 31 December 2012 as reflected in the segmental information was a loss of approximately HK$85,023,000 in the underground coal mine business, profit from sale of open-pit coal of approximately HK$3,290,000 and profit from upgrading low-rank coal of approximately HK$647,000.

Selling and distribution expenses for 2012 was approximately HK$17,414,000 representing an increase of HK$260,000 as compared with approximately HK$17,154,000 in 2011.

Administrative expenses for 2012 was approximately HK$51,212,000 as compared with HK$60,260,000 in 2011. The reduction was the result of the Group's concerted efforts to maximize operational efficiency and streamline operational expenses.

Finance cost for 2012 was approximately HK$7,444,000 representing a decrease of 33% as compared with approximately HK$11,125,000 in 2011 because of the decrease in bank borrowings. As at 31 December 2012, there are no banking borrowings in the Group.

In January 2012, the Company had granted share options to certain independent third party contractors pursuant to the share option scheme adopted on 20 August 2009. The Options would enable the Grantees to subscribe for an aggregate of 73,000,000 new shares of HK$0.81 per share. Adjusted exercise price of HK$0.675 and adjusted number of shares 87,600,000 was made due to bonus issue of shares in October 2012. As a result of the share option granted, the share based payments of HK$14,892,000 were recognised in the income statement.

In January 2012, an unlisted warrant placing agreement was entered into between the Company and the placing agent in respect of the Placing of 146,376,000 unlisted warrants. The warrant holders would enable to subscribe each share at HK$0.836. Adjusted exercise price of HK$0.70 and adjusted number of shares 174,814,766 was made due to bonus issue of shares in October 2012. The net proceeds from the Warrant Placing would be used as general working capital of the Group.

In May 2012, an indirect wholly owned subsidiary of the Company entered into an agreement with Mr. Mak Shiu Chung, Godfrey ("Mr. Mak") for a consideration of HK$300,000 in relation to the acquisition of the entire issued share capital of Pak Yip which in turn owned a group of Hong Kong and PRC companies engaged in low-rank coal upgrading business. Pak Yip was wholly-owned by Mr. Mak, an executive Director and a substantial shareholder of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In May 2012, Mr. Xu Bin ("Mr. Xu") and the Company entered into the Call Option Agreement at HK$1, pursuant to which Mr. Xu agreed to grant the call option to the Company and/or its nominee to acquire the coal upgrading technology ("Technology") and intellectual property arising out of the Technology for a period from 18 February 2013 to 17 August 2014. At the same time, Mr. Xu and Beijing Guochuan entered into the Licensing Agreement, pursuant to which Mr. Xu agreed to grant Beijing Guochuan and its affiliates the right to use the Technology and to enter into a sub-licensing agreement with third party for three years from 18 May 2012 at RMB800,000 per annum. Mr. Xu is an Executive Director and a substantial shareholder of the Company.

With positive contribution from both Jinyuanli underground coal mine and the newly acquired low-rank coal upgrading business, we expect the Group to be able to deliver a good result for the year of 2013.

Capital structure, liquidity and financial resources

As a result of the bonus issue of shares on the basis of two bonus shares for every ten then existing shares in 2012 and the exercise of 41,054,766 non-listed warrants by the warrant holders in December 2012, the Company has a total number of 919,332,193 issued shares.

As at 31 December 2012, the Group had cash and cash equivalents amounting to approximately HK$35 million. Additionally, the Group's gearing ratio was 0.03 which was based on the division of total borrowings by total equity. The Group's liquidity ratio was 0.91.

Pledge of Assets

As at 31 December 2012, the Group had no pledge of assets.

Foreign currency risk

The Group's sales and purchases are mainly transacted in Renminbi and the books are recorded in Hong Kong dollar. Since the exchange rate fluctuation between Hong Kong dollar and Renminbi is very small, the foreign exchange risk is very low and no hedging has been made.

Contingent liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities.

Employee information

As at 31 December 2012, the Group employed a total of 705 full-time employees. The Group has entered into employment contracts with all of its employees. The remuneration package for its staff comprises of monthly salary, provident fund contributions, medical claims, training programmes, housing allowance and discretionary options based on their contribution to the Group.

During the year under review, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Material acquisitions and significant investment

In May 2012, the Company completed the transaction through its indirectly wholly owned subsidiary, in relation to the acquisition of equity interest in Pak Yip for a total consideration of HK$300,000.

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2012 and currently it has no plan for material investments or capital assets.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Mak Shiu Chung, Godfrey, aged 50, joined the Company in January 2006,is an executive Director and the Co-chairman of the Company. Mr. Mak has over 22 years of experience in the field of corporate finance, specialising in advisory services for major transactions concerning different sectors. He has participated in various securities and financing activities in Asia. Mr. Mak returned to Hong Kong and joined the Hong Kong Government as an Administrative Officer in 1988. He started his corporate finance career at Morgan Grenfell in 1990. He holds a Bachelor of Science degree in Business Studies from Bradford University School of Management, United Kingdom and a Master of Business Administration degree from the University of Wales, United Kingdom. Mr. Mak is a Member of the Hong Kong Securities Institute, a Member of The Chartered Institute of Marketing and an Associate of The Institute of Chartered Secretaries and Administrators.

Mr. Xu Bin, aged 47, joined the Company in August 2009, was appointed an executive Director and Co-chairman of the Company on 10 August 2009, respectively. Mr. Xu has over 13 years of experience in financial management. Mr. Xu attended Faculty of Finance in Jilin University. He was previously the general manager of Hainan Dongyuan Industrial Company Limited. Apart from being an executive Director and Co-chairman of the Company. Mr. Xu does not hold any other positions in the Company or any member of the Group.

Mr. Zhang Chao Liang, aged 44, joined the Company in July 2006, Mr. Zhang graduated from the University of Shenzhen in International Trade Finance. He was previously the Head of Sales in China National Machinery Import and Export Corporation (Shenzhen) responsible for sales and marketing and strategic planning.

Mr. Wang Hon Chen, aged 52, joined the Company in January 2007, is the general manager of the Changchun Yicheng. Mr. Wang has over 25 years of experience in the production field. Mr. Wang is responsible for overseeing the operations of Changchun Yicheng Packaging Company Limited, including product development, production process and technical and safety management. He is a member of the People's Congress in Luyuan District, Changchun City, Jilin Province, People's Republic of China.

Independent Non-executive Directors

Mr. Kwok Chi Shing, aged 50, is currently the managing partner of LKKC CPA Limited. He graduated from the University of Aberdeen, United Kingdom in 1986 with a Master of Arts Honour Degree in Accountancy with Economics. Mr. Kwok is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has extensive experience in corporate and financial management work especially for the international cross border transactions, real estate development and property management industries. He has extensive experience in public sector work both in Hong Kong and China and he was the president of the Hong Kong Association of Financial Advisors. Mr. Kwok has been an independent non-executive Director of the Company since January 2006.

Mr. Tsang Wai Sum, aged 52, graduated from the University of London with a bachelor degree in Laws and RMIT University with a Master Degree of Finance. He is a practicing solicitor in Hong Kong. He has been admitted as a solicitor in England and Wales and has been admitted as a barrister and solicitor in the Supreme Court of Victoria, Australia. Mr. Tsang has been an independent non-executive Director of the Company since July 2006.

Mr. Yu Yang, aged 46, graduated from the University of Nanjing with a bachelor degree in International Commercial Business. He is currently the chairman of Nanjing Pesishing Technology Company Limited and has over 28 years of experience in Commodity trading business. Mr. Yu has been an independent non-executive Director of the Company since September 2007.

Mr. Huang Shao Ru, aged 40, graduated from school of Distance Education of Beijing Jiaotong University majoring in business and administration and has over 20 years of managerial and international trade experience. Mr. Huang has been serving as the director and general manger of Xinhu Industry Co., Ltd. Shenzhen, Goangdong Since Junary 2003. Mr. Huang has been an independent non-executive director of the Company on 2 April 2013.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Fen Jin Yu, aged 58, joined the Company in July 2012, is the general manager of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited. He has over 32 years of mining and mine management experience in China.

Mr. Wong Choi Chak, aged 48, joined the Company in October 2003, is the financial controller and company secretary of the Company. Mr. Wong has worked for various listed companies for over 19 years. Mr. Wong is primarily responsible for the Group's financial projection, finance control and accounting of the Group. Mr. Wong holds a bachelor's degree in Accounting from the University of Lincoln, England. Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

DIRECTORS' REPORT

The Directors are pleased to present their report and audited financial statements of the Group for the year ended 31 December 2012.

Principal activities

The Group was engaged in the manufacturing and sale of plastic woven bags, paper bags and plastic barrels, sale of coal and provision of low-rank coal upgrading services during the year.

Details of the segment information are set out in Note 8 to the financial statements.

Results and financial position

The Group's results for the year ended 31 December 2012 are set out in the consolidated income statement on page 30.

The state of the Group's affairs as at 31 December 2012 is set out in the consolidated statement of financial position on page 32.

Bonus issue of shares

The Board also recommends the issued of bonus shares on the basis of two bonus shares for every ten existing shares held by shareholders registered as such on the register of members on Tuesday, 24 September 2013. The bonus issue is subject to the conditions and trading arrangements set out in the circular to be despatched to the shareholders of the Company.

Share capital

Details of the movements in the share capital of the Company are set out in Note 30 to the financial statements.

Reserves

The movements in reserves during the year are set out in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

Sufficiency of public float

Based on the information available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued share capital were held by the public as at the date of this report. The Company has been maintaining the public float required by the Listing Rules Governing the Listing of Securities (The "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' REPORT

Dividend

The Directors have resolved to recommend the payment of a final dividend of HK0.65 cent (2011: HK0.5 cent) per ordinary share amounting to approximately HK$6,209,000 for the year ended 31 December 2012 (2011: HK$3,659,000).

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group are set out in Note 16 to the financial statements.

Donation

Charitable and other donations made by the Group during the year amounted to HK$Nil (2011: HK$2,400,000).

Directors

The Directors who held office during the year and to the date of this report were:

Executive Directors

Mr. Mak Shiu Chung, Godfrey
Mr. Xu Bin
Mr. Zhang Chao Liang
Mr. Wang Hon Chen

Independent Non-Executive Directors

Mr. Kwok Chi Shing
Mr. Tsang Wai Sum
Mr. Yu Yang

In accordance with article 87(1) of the Articles of Association of the Company, Mr. Mak Shiu Chung, Godfery. Mr. Wang Hon Chen, and Mr. Tsang Wai Sum will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence. The Company considers that each of its independent non-executive Directors is independent pursuant to the criteria set out in the Listing Rules.

Biographical details of the Directors and senior management are set out on pages 11 to 12 of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments to Directors are determined by the Board of the Company with reference to Directors' duties, responsibilities and performance and the results of the Company. The Company has a remuneration committee to formulate remuneration policies. Details of the Directors' remuneration are disclosed in note 13 to the financial statements.

The emoluments to senior management is also set by the Board and reviewed by the remuneration committee on the basis of their merit, qualifications and competence.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7.

Directors' service contracts

Neither Mr. Mak Shiu Chung, Godfrey, Mr. Xu Bin, Mr. Zhang Chao Liang nor Mr. Wang Hon Chen has entered into any service contract with the Company since their respective appointment as an Executive Director of the Company. Each of them has signed a director's appointment letter with no fixed term of appointment as an Executive Director.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations

As at 31 December 2012, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the laws of Hong Kong) (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(I) Interests in shares of the Company (Note 1)

	Number of ordinary shares					
Name	Personal interests	Corporate interests	Family interests	Other interests	Total	Percentage of issued share capital
Mr. Mak Shiu Chung, Godfrey	–	120,542,515(L) (Note 2)	–	–	120,542,515(L)	13.11%
Mr. Xu Bin	101,523,456(L)	–	–	–	101,523,456(L)	11.04%
Mr. Tsang Wai Sum	398,131(L)	–	–	–	398,131(L)	0.05%

Notes:

1. As defined in Section 311 of the SFO, a reference to interests in shares comprised in the relevant share capital of a listed corporation includes a reference to interests in shares so comprised, which are the underlying shares of equity derivatives.

DIRECTORS' REPORT

2. These Shares are beneficially owned by Lucky Team International Limited ("Lucky Team"), a company incorporated in the British Virgin Islands. By virtue of his 100% shareholding in Lucky Team, Mr. Mak Shiu Chung, Godfrey is deemed or taken to be interested in the 120,542,515 Shares owned by Lucky Team.

3. The letter "L" denotes a long position in the Shares.

(II) Interests in equity derivatives (as defined in the SFO) in, or in respect of, underlying shares

As at 31 December 2012, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers contained in the Listing Rules, were required to be notified to the Company and the Stock Exchange.

Share option scheme

The Company's existing share option scheme (the "Scheme") was adopted at the extraordinary general meeting held on 20 August 2009. The purpose of the Scheme is to enable the Company to grant options to any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, or any or its subsidiaries or an entity in which the Group holds any equity interest (the "Invested Entity"); any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group (the "Eligible Participants") as incentives or rewards for their contribution to the Group and/or to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any Invested Entity.

Details of the principal terms of the Scheme is set out in the circular of the Company dated 4 August 2009.

Certain principal terms of the Scheme are summarized as follows:

The Scheme was adopted for a period of 10 years commencing from 20 August 2009 and will remain in force until 19 August 2019, after which period no further options will be offered or granted but the provisions of the Scheme shall remain in full force and effect in all other respects with regard to options granted during the life of the Scheme. The subscription price for Shares in respect of any option granted shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option but in any case the subscription price for Shares shall be at least not lower than the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) trading days immediately preceding the date of grant; and (c) the nominal value of a Share.

Based on 508,262,400 Shares in issue, the maximum number of Shares to be issued upon exercise of all options to be granted under the Scheme is 50,826,240 Shares, being 10% of the issued share capital of the Company as at the date of the circular mentioned above.

Under the Scheme, the Directors may, at their discretion, offer options to the Eligible Participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

On 20 December 2011, the Company resolved to refresh the Scheme. Based on 731,897,856 Share in issue, the maximum number of Shares to be issued upon exercise of all options to be granted under the Scheme reset to 73,189,785 Shares being 10% of the issued share capital of the Company as at date of the passing of the relevant resolution.

On 9 January 2012, the Company granted 73,000,000 share options with an exercise price of HK$0.81 each to certain independent third party contractors. Following the completion of the bonus issue on 12 October 2012, the exercise price per Share of the outstanding share options and the number of Share to be issued from the outstanding share options have been adjusted to HK$0.675 and 87,600,000 Shares, respectively.

As at the Latest Practicable Date, there is no movement or outstanding share option to be exercised under the Scheme.

Directors' interests in contracts

The Group has the following transactions:

Name of party contracted with	Nature of contract	Amount HK$	Interested Director
Shenzhen Beidachang Trading Co., Ltd.	Unsecured loan advanced to a subsidiary	Loan – 14,123,000 Interest – 735,000	Mr. Zhang Chao Liang has control over the contracted party
Mr. Mak Shiu Chung, Godfrey	Unsecured loan advanced to the Company	Loan – Nil Interest – 61,000	Mr. Mak Shiu Chung , Godfrey
Mr. Mak Shiu Chung , Godfrey	Cash consideration paid for acquisition of subsidiaries	300,000	Mr. Mak Shiu Chung , Godfrey

Apart from the above, no other contracts of significance to which the Company or its subsidiaries was a party subsisted at the end of the year or at any time during the year in which any Director of the Company had a material interest.

Directors' and chief executive's rights to acquire shares or debt securities

Save as disclosed under the section headed "Directors' and Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations", as at 31 December 2012, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and Chief Executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

DIRECTORS' REPORT

Substantial shareholders

Other than interests disclosed in the section headed "Directors and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations" above, as at 31 December 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed the following persons or corporations (other than the Directors or chief executive of the Company) as having an interest of 5% or more of the issued share capital of the Company.

Name	Capacity/ Nature of interest	Number of Shares (Note 3)	Percentage of issued share capital
Lucky Team International Limited ("Lucky Team")	Beneficial Owner	120,542,515(L) (Note 1)	13.11%
Mr. Xu Bin	Beneficial Owner	101,523,456(L) (Note 4)	11.04%
Ms. Li Gui Yan	Beneficial Owner	72,783,360(L) (Note 2)	7.92%

Notes:

1. Lucky Team is a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Mak Shiu Chung, Godfrey, the Co-chairman and an executive Director of the Company.

2. To the best knowledge of the Directors, Ms. Li Gui Yan is a third party independent of and not connected with the Directors, chief executive, substantial shareholders or management shareholders of the Company or any associate of any of them.

3. The letter "L" denotes a long position in the Shares.

4. Mr. Xu Bin is beneficially interested in 101,523,456 Shares.

Save as disclosed above, as at 31 December 2012, the Directors were not aware of any other persons who have interests and/or short positions in the shares, underlying shares and debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Connected transactions and continuing connected transactions

During the year ended 31 December 2012, the Group had the following continuing connected transactions, details of which have been disclosed in compliance with the requirements in accordance with the Listing Rules:

(a) On 28 June 2007, Yuan Yuan entered into an agreement with 內蒙古源源能源集團金源里井工礦業有限責任公司 (Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited*) (the "First JV Company") for the purchase by the First JV Company from Yuan Yuan of coal required by the First JV Company and the lease by the First JV Company from Yuan Yuan of a station platform for the transportation of coal for the period from 6 August 2007 to 31 December 2009 (the "Underground Coal Supply Agreement"). Yuan Yuan is a connected person of the Company as it is a joint venture partner of the First JV Company, which is held as to 43.8% by Yuan Yuan and 56.2% by a wholly-owned subsidiary of the Company. Accordingly, the transactions under the Underground Coal Supply Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the Underground Coal Supply Agreement has expired on 31 December 2009, the First JV Company entered into the renewal agreement with Yuan Yuan on 28 January 2010 for the purchase by the First JV Company from Yuan Yuan of coal required by the First JV Company and the lease by the First JV Company from Yuan Yuan of a station platform for the transportation of coal for the period from 28 January 2010 to 31 December 2012.

The 2012 annual cap for the lease of station platform under the Underground Coal Supply Agreement for the year ended 31 December 2012 was RMB8,640,000 (approximately HK$10,800,000) and the actual amount for the lease of station platform by the First JV Company was approximately HK$7,542,000.

(b) During September 2012, a loan agreement was entered into between Yuan Yuan as the creditor and Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Co., Ltd. ("Jinyuanli") as the borrower for an unsecured loan of RMB30 million (approximately HK$37.5million) repayable at an interest rate of 10.2% per annum for the use by Jinyuanli for general working purpose. The loan is repayable on 31 August 2014. Yuan Yuan is a shareholder of Jinyuanli therefore is a connected person of the Company under Rule 14A.11(1) of the Listing Rules. However, the transaction is exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules as it is a financial assistance provided by Yuan Yuan, a connected party of the Company, for the benefit of Jinyuanli, a subsidiary of the Company on commercial terms better than normal commercial terms to the Group where no security over the assets of the Group is granted in respect of such financial assistance.

The related party transactions set out in note 38 to the consolidated financial statements constituted connected transactions of the Company under Chapter 14A of the Listing Rules but are exempt from the requirements for reporting, announcement and independent shareholders' approval.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive directors, being Messrs. Kwok Chi Shing, Tsang Wai Sum and Yu Yang, reviewed the continuing connected transactions stipulated in paragraph (a) above and confirmed that they were entered into:

(i) in the ordinary and usual course of business of the Group;
(ii) on normal commercial terms; and
(iii) in accordance with the Underground Coal Supply Agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

In the opinion of the Board, the continuing connected transactions stipulated in paragraph (a) above were entered into in the manners stated above.

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.

DIRECTORS' REPORT

Convertible securities, options, warrants or other similar rights

In January 2012, the Company and a placing agent entered into a Warrant Placing Agreement to procure not less than six placees to subscribe for up to 146,376,000 warrants at issue price of HK$0.01 per warrant. The exercise price of each warrant is HK$0.836 and the subscription rights attaching to the warrants can be exercised at any time during a period of two years commencing from the date of issue of the warrants i.e. 18 January 2012.

On 10 February 2012, the conditions of the Warrant Placing Agreement have been fulfilled and the Warrant Placing was completed. The proceeds of approximately HK$1,464,000 were received and credited to the warrant reserve of the Company.

Subsequent to the issue of bonus shares of the Company (Note 30(b)), the exercise price was adjusted to HK$0.7 per warrant share and the number of shares exercisable of the warrants outstanding was adjusted to 174,814,766.

In December 2012, the subscription rights at aching to 41,054,766 warrants issues by the Company were exercised at the subscription price of HK$0.7 per share, resulting in the issue of 41,054,766 shares of HK$0.1 each for a total cash proceeds of approximately HK$28,738,000 (Note 30(c)).

In January 2013, the subscription rights attaching to 35,828,572 warrants issued by the Company were exercised at the subscription price of HK$0.7 per share, resulting in the issue of 35,828,572 shares of HK$0.1 each for a total cash consideration of approximately HK$25,080,000.

Apart from the share options and the warrants, details of which are respectively set out in the section headed "Share option scheme" and above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2012. There had been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31 December 2012.

Major customers and suppliers

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the years ended 31 December 2012 and 2011 are as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2012	2011	2012	2011
The largest customer	46%	27%		
Five largest customers in aggregate	85%	58%		
The largest supplier			20%	19%
Five largest suppliers in aggregate			45%	55%

During the year, to the best of the Directors' knowledge, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material interest in the major customers and suppliers noted above.

Competing interests

During the year, to the best of the Directors' knowledge, none of the Directors or the management shareholders (as defined in the Listing Rules) of the Company had any material interest in business which competes or may compete with the business of the Group.

Distributable reserves

As at 31 December 2012, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$180,852,000. The share premium account of the Company of approximately HK$280,534,000 as at 31 December 2012 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Pre-emptive rights

No pre-emptive rights exist under the laws in the Cayman Islands, being the jurisdiction in which the Company is incorporated.

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Compliance with the Listing Rules

Throughout the year ended 31 December 2012, the Company has complied with the Listing Rules except the independent non-executive Directors have not been appointed for a specific term. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company.

Audit committee

The Company established an audit committee on 16 August 2001, comprising the independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Tsang Wai Sum and Mr. Yu Yang. The written terms of reference of the audit committee comply with the Listing Rules. The primary duties of the audit committee of the Company are to review the Company's annual report financial statements and interim report and to provide advices and comments thereon to the Board. The audit committee of the Board will also be responsible for supervising and reviewing the financial reporting process and internal control system of the Group.

The audit committee of the Company held four meetings during the year. The audit committee has reviewed the annual results for the year ended 31 December 2012.

Auditor

The financial statements have been audited by RSM Nelson Wheeler who will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting.

DIRECTORS' REPORT

Corporate governance

A report of the principal corporate governance practices adopted by the Company is set out on pages 23 to 27 of the annual report.

By order of the Board

Mak Shiu Chung, Godfrey
Co-Chairman

28 March 2013, Hong Kong

CORPORATE GOVERNANCE REPORT

Corporate governance report

The Company is maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well preserving the interest of the shareholders as a whole. The Company has complied with the applicable provision set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "CG Code"), save and except for the following deviations: (i) our independent non-executive Directors are not appointed for a specific term. However, all Directors (including executive and non-executive)of the Company are subject to retirement by rotation at least once every three year at the AGM. The Board believes that this retirement by rotation requirement serves the same purpose as that of code provision A.4.1.; and (ii) under code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings of the Company. Two independent non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 20 June 2012 as they had other engagements in China. The Company will optimize the planning of general meetings, give adequate time to all Directors for prior work arrangement and provide all necessary support for their presence and participation in general meetings in a way that all Directors will be able to attend future general meetings of the Company.

Directors' securities transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2012.

Board of Directors and Board meeting

The Board of Director Board, which currently comprises seven Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Board members

The Board, as the date of this report, consist of seven Directors, including four executive Directors and three independent non-executive Directors.

Executive Directors
Mr. Mak Shiu Chung, Godfrey *(Co-Chairman)*
Mr. Xu Bin *(Co-Chairman)*
Mr. Zhang Chao Liang
Mr. Wang Hon Chen

Independent Non-executive Directors:
Mr. Kwok Chi Shing
Mr. Tsang Wai Sum
Mr. Yu Yang

CORPORATE GOVERNANCE REPORT

There is no financial business, family or other material/ relevant relationship among the Directors of the Company.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Profiles of Directors and senior management. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Mak Shiu Chung, Godfrey and Mr. Xu Bin are the co-chairman of the Board and an executive Director and Mr. Zhang Chao Liang, is the chief executive officer of the Company.

During the year ended 31 December 2012, the Company had three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders. The Company has received an annual confirmation from each of the independent non-executive Directors on their respective independence Pursuant to Rule 3.13 of the Listing Rules and consider that each of them to be independent. Mr. Kwok Chi Shing, Mr. Tsang Wai Sum and Mr. Yu Yang are the independent non-executive Directors. The appointment of Mr. Kwok Chi Shing and Mr. Tsang Wai Sum is not for a fixed term and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or Mr. Kwok Chi Shing and Mr. Tsang Wai Sum with a written notice of not less than one month unless both parties agree otherwise.

Mr. Yu has been appointed as an independent non-executive Directors for an initial fixed term of two years commencing from 5 September 2007. The appointment of Mr. Yu will continue after expiry of the said initial fixed term provided that either the Company or Mr. Yu may terminate the letter of appointment by giving at least three months' prior written notice to the other, whether during the said initial fixed or thereafter.

During the year ended 31 December 2012, the Board held a full board meeting for each quarter.

Details of the attendance of the Board are as follows:

Directors	Number of board meeting attendance/total	Board meeting attendance percentage	Number of annual general meeting attendance/total	Annual general meeting attendance percentage
Mr. Mak Shiu Chung, Godfrey	4/4	100%	1/1	100%
Mr. Xu Bin	4/4	100%	0/1	0%
Mr. Zhang Chao Liang	4/4	100%	0/1	0%
Mr. Wang Hon Chen	4/4	100%	0/1	0%
Mr. Kwok Chi Shing	4/4	100%	0/1	0%
Mr. Tsang Wai Sum	4/4	100%	1/1	100%
Mr. Yu Yang	4/4	100%	0/1	0%

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Remuneration of Directors

The remuneration committee was established in September 2005. The chairman of the committee is Mr. Tsang Wai Sum, an independent non-executive Director, and other members include Mr. Mak Shiu Chung, Godfrey and Mr. Yu Yang, the majority being independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations of the remuneration of non-executive Directors to the Board. The remuneration committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held on 1 February 2012. Details of the attendance of the remuneration committee meeting are as follows:

Members	Attendance	Attendance Percentage
Mr. Mak Shiu Chung, Godfrey	1/1	100%
Mr. Tsang Wai Sum	1/1	100%
Mr. Yu Yang	1/1	100%

The remuneration committee of the Company has considered and reviewed the existing terms of appointment letters of the executive Directors and the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of appointment letters of the executive Directors and the independent non-executive Directors are fair and reasonable.

Nomination of Directors

The nomination committee was established in September 2005. The chairman of the committee is Mr. Tsang Wai Sum, and other members include Mr. Mak Shiu Chung, Godfrey and Mr. Yu Yang, the majority being independent non-executive Directors.

The role and function of the nomination committee included selection and recommendation of Directors for appointment and removal.

The nomination committee would consider the past performance, qualification and general market conditions in selecting and recommending candidates for directorship during the year under review.

During the period under review, a meeting of the nomination committee was held on 1 December 2012 for nomination of Directors. Details of the attendance of the meeting are as follows:

Members	Attendance	Attendance Percentage
Mr. Mak Shiu Chung, Godfrey	1/1	100%
Mr. Tsang Wai Sum	1/1	100%
Mr. Yu Yang	1/1	100%

CORPORATE GOVERNANCE REPORT

During the meeting on 1 December 2012, the Board recommended that all the existing Directors be retained by the Company. Further, in accordance with the Company's Articles of Association Mr. Mak Shiu Chung, Godfrey, Mr. Wang Hon Chen and Mr. Tsang Wai Sum will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Directors' training

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the CG Code during the year under review.

Company secretary's training

Pursuant to Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided his training records to the Company indicating more than 15 hours of relevant professional development by means of attending seminars and reading relevant guideline materials.

Auditor's remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK$900,000 to the external auditor for their services including audit, due diligence and other advisory services.

Audit committee

The Company established an audit committee with written terms of reference in compliance with the code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2012, the audit committee comprises three members, Mr. Kwok Chi Shing, and Mr. Tsang Wai Sum and Mr. Yu Yang. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Kwok Chi Shing.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance	Attendance Percentage
Mr. Kwok Chi Shing	4/4	100%
Mr. Tsang Wai Sum	4/4	100%
Mr. Yu Yang	4/4	100%

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Directors' and auditors responsibilities for financial statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on pages 28 and 29.

Internal control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control. In order to strengthen the internal control system of the Group, the Company engaged a professional Company to perform an internal control review every year.

Investors relations

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules. Meetings are held with media and investors periodically. The Company also replied enquires from shareholders timely. The Directors host annual general meeting each year to meet with the shareholders and answer their enquiries.

INDEPENDENT AUDITOR'S REPORT

RSM
Audit • Tax • Advisory

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
DETEAM COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of DeTeam Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 78, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's results 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

28 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	6	430,506	494,496
Cost of sales		(354,499)	(425,631)
Gross profit		76,007	68,865
Other income	7	2,523	951
Selling and distribution expenses		(17,414)	(17,154)
Administrative expenses		(51,212)	(60,260)
Share-based payments		(14,892)	–
Impairment of property, plant and equipment	16(b)	(62,051)	–
Other operating expenses		(3)	(3,678)
Loss from operations		(67,042)	(11,276)
Finance costs	9	(7,444)	(11,125)
Loss before tax		(74,486)	(22,401)
Income tax credit	10	10,777	217
Loss for the year	11	(63,709)	(22,184)
Attributable to:			
Owners of the Company		(25,385)	(2,292)
Non-controlling interests		(38,324)	(19,892)
		(63,709)	(22,184)
Loss per share	15		(Restated)
– Basic		HK(2.89) cents	HK(0.26) cent
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Loss for the year	(63,709)	(22,184)
Other comprehensive income:		
Exchange differences on translating foreign operations	9,155	24,849
Other comprehensive income for the year, net of tax	9,155	24,849
Total comprehensive income for the year	(54,554)	2,665
Attributable to:		
Owners of the Company	(18,143)	16,202
Non-controlling interests	(36,411)	(13,537)
	(54,554)	2,665

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	557,407	520,979
Prepaid land lease payments	17	2,859	2,860
Intangible asset	18	93,292	93,183
Deferred tax assets	29	57,071	25,810
Goodwill	19	2,907	–
		713,536	642,832
Current assets			
Inventories	20	67,682	75,656
Prepaid land lease payments	17	66	84
Trade receivables	21	129,145	93,430
Deposits, prepayments and other receivables	22	36,511	58,181
Current tax assets		837	302
Pledged and restricted bank deposits	23	7,962	11,982
Bank and cash balances	24	34,538	37,064
		276,741	276,699
Current liabilities			
Trade payables	25	26,594	7,282
Accrued charges and other payables		263,118	179,990
Due to non-controlling shareholders	26	5,940	10,331
Due to directors	27	76	–
Borrowings	28	–	49,048
Current tax liabilities		8,120	5,202
		303,848	251,853
Net current (liabilities)/assets		(27,107)	24,846
Total assets less current liabilities		686,429	667,678
Non-current liabilities			
Due to non-controlling shareholders	26	60,730	36,900
Borrowings	28	20,373	13,162
Deferred tax liabilities	29	9,486	9,321
		90,589	59,383
NET ASSETS		595,840	608,295
Capital and reserves			
Share capital	30	91,933	73,190
Other reserves	34(a)	382,852	341,813
(Accumulated losses)/Retained profits		(4,695)	34,345
Proposed final dividend	14	6,209	3,659
Equity attributable to owners of the Company		476,299	453,007
Non-controlling interests		119,541	155,288
TOTAL EQUITY		595,840	608,295

Approved by the Board of Directors on 28 March 2013.

Mak Shiu Chung, Godfrey
Director

Zhang Chao Liang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		Attributable to owners of the Company						
	Note	Share capital HK$'000	Other reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		60,991	320,619	55,195	3,659	440,464	168,664	609,128
Total comprehensive income for the year		-	18,494	(2,292)	-	16,202	(13,537)	2,665
Issue of bonus shares	30(a)	12,199	(12,199)	-	-	-	-	-
Capital contribution from a non-controlling shareholder		-	-	-	-	-	161	161
Appropriations		-	14,899	(14,899)	-	-	-	-
Dividend paid - 2010 final dividend		-	-	-	(3,659)	(3,659)	-	(3,659)
2011 proposed final dividend	14	-	-	(3,659)	3,659	-	-	-
Changes in equity for the year		12,199	21,194	(20,850)	-	12,543	(13,376)	(833)
At 31 December 2011		73,190	341,813	34,345	3,659	453,007	155,288	608,295
At 1 January 2012		73,190	341,813	34,345	3,659	453,007	155,288	608,295
Total comprehensive income for the year		-	7,242	(25,385)	-	(18,143)	(36,411)	(54,554)
Issue of bonus shares	30(b)	14,638	(14,638)	-	-	-	-	-
Share-based payments		-	14,892	-	-	14,892	-	14,892
Issue of warrants	32(a)	-	1,464	-	-	1,464	-	1,464
Exercise of warrants	30(c)	4,105	24,633	-	-	28,738	-	28,738
Acquisition of subsidiaries	35(a)	-	-	-	-	-	664	664
Net Appropriations		-	13,655	(13,655)	-	-	-	-
Dividend paid - 2011 final dividend		-	-	-	(3,659)	(3,659)	-	(3,659)
2012 proposed final dividend	14	-	(6,209)	-	6,209	-	-	-
Changes in equity for the year		18,743	41,039	(39,040)	2,550	23,292	(35,747)	(12,455)
At 31 December 2012		91,933	382,852	(4,695)	6,209	476,299	119,541	595,840

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(74,486)	(22,401)
Adjustments for:			
Interest income		(180)	(911)
Finance costs		7,444	11,125
Depreciation and amortisation		39,742	33,631
Impairment of property, plant and equipment		62,051	–
Allowance for inventories		2,371	4,932
Gain on disposals of property, plant and equipment		(160)	(40)
Share-based payments		14,892	–
Operating profit before working capital changes		51,674	26,336
Decrease/(increase) in inventories		5,603	(19,790)
Increase in trade receivables		(34,833)	(11,318)
Decrease in deposits, prepayments and other receivables		22,643	49,402
Decrease in pledged and restricted bank deposits		4,148	32,086
Increase in trade payables		19,312	3,807
Increase in accrued charges and other payables		4,605	33,425
(Decrease)/increase in amounts due to non-controlling shareholders		(2,997)	7,590
Increase in amounts due to directors		76	–
Cash generated from operations		70,231	121,538
Income taxes paid		(17,308)	(10,652)
Interest paid		(3,481)	(8,767)
Bank charges paid		(622)	(887)
Net cash generated from operating activities		48,820	101,232
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	35(a)	390	–
Purchase of property, plant and equipment		(28,807)	(68,860)
Proceeds from disposals of property, plant and equipment		17	–
Interest received		180	911
Net cash used in investing activities		(28,220)	(67,949)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loans raised	18,450	115,945
Repayment of bank loans	(52,349)	(169,183)
Other loan raised	–	2,400
Repayment of other loans	(11,070)	(4,324)
Issue of warrants	1,464	–
Proceeds from issue of shares	28,738	–
Capital contribution from a non-controlling shareholder	–	161
Dividends paid to owners of the Company	(3,659)	(3,659)
Net cash used in financing activities	(18,426)	(58,660)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,174	(25,377)
Effect of foreign exchange rate changes	(853)	4,226
CASH AND CASH EQUIVALENTS AT 1 JANUARY	33,217	54,368
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34,538	33,217
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	34,538	37,064
Bank overdrafts	–	(3,847)
	34,538	33,217

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. General information

The Company was incorporated in the Cayman Islands on 7 April 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its business office is Suite no. 3, 31st floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are manufacturing and sale of plastic woven bags, paper bags and plastic barrels, sale of coal and provision of low-rank coal upgrading services.

2. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

3. Significant accounting policies

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

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

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

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

3. Significant accounting policies (Continued)

(a) Consolidation

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. Significant accounting policies (Continued)

(b) Business combination and goodwill

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

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

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

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

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

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

3. Significant accounting policies (Continued)

(c) Foreign currency translation

(i) *Functional and presentation currency*

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

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

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

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

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

(iii) *Translation on consolidation*

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. Significant accounting policies (Continued)

(d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Other than mining structures, depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	4% – 5%
Leasehold improvements	Over lease term
Plant and machinery	10% – 33%
Furniture, fixtures and equipment	19% – 33%
Motor vehicles	13% – 25%

Mining structures (including the main and auxiliary mine shafts underground tunnels) are depreciated at a units-of-production method over the estimated volume of underground coal that is entitled to the Group.

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

Construction in progress represents buildings and mining structures under construction and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

(e) Operating leases

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

(f) Intangible asset

Mining right is measured initially at purchase cost and is amortised at a units-of-production method over the estimated volume of underground coal that is entitled to the Group.

3. Significant accounting policies (Continued)

(g) Inventories

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

(h) Recognition and derecognition of financial instruments

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

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

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

(i) Trade and other receivables

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

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

3. Significant accounting policies (Continued)

(j) Cash and cash equivalents

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

(k) Financial liabilities and equity instruments

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

(l) Borrowings

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

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

(m) Trade and other payables

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

(n) Equity instruments

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

(o) 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 proceed received from the issue of warrants is recognised in equity (warrant reserve). The warrant reserve will be transferred to share premium account upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to retained profits.

3. Significant accounting policies (Continued)

(p) Revenue recognition

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

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

Coal upgrading income is recognised when the coal upgrading services are rendered.

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

(q) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. Significant accounting policies (Continued)

(r) Share-based payments

The Group issues equity-settled share-based payments to eligible participants in accordance with its share option scheme.

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

Equity-settled share-based payments to consultants and others are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(s) Borrowing costs

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

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

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

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. Significant accounting policies (Continued)

(u) Taxation

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

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

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

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

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

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

The measurement of deferred tax assets and liabilities 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.

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

3. Significant accounting policies (Continued)

(v) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(w) Impairment of assets

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

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

3. Significant accounting policies (Continued)

(w) Impairment of assets (Continued)

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

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

(x) Provisions and contingent liabilities

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

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

(y) Events after the reporting period

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

4. Critical judgements and key estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

(a) Legal titles of certain buildings

As stated in Note 16(a) to the financial statements, the legal titles of certain buildings were not yet obtained as at 31 December 2012. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as property, plant and equipment, on the grounds that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling those buildings.

4. Critical judgements and key estimates (Continued)

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.

(a) Property, plant and equipment and depreciation

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

(b) Deferred tax assets

The estimates of deferred tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The change in future income tax rates and timing would affect income tax expense or credit, as well as deferred tax balance. The realisation of deferred tax assets also depends on the realisation of sufficient future taxable profits of the Group. Deviation of future profitability from the estimate could result in material adjustments to the carrying amount of deferred tax assets.

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Impairment of intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash-generating unit to which the intangible asset has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of intangible asset at the end of reporting period was approximately HK$93,292,000 (Note 18).

(e) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

5. Financial risk management

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

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

The Group has a number of customers which are under common control of two individual groups of listed company in Hong Kong. One of these groups is also a subsidiary of another individual group. Thus, the Group is exposed to a relatively high concentration of credit risk in terms of trade receivables as the Group's sales to its largest customer were over 76% (2011: 77%) of the turnover for the year and shared over 74% (2011: 71%) of the trade receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables and there is no recent history of default for the Group's largest customer.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on trade and other receivables and bank and cash balances is limited because the counterparties are customers with good repayment history and banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

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

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

5. Financial risk management (Continued)

(c) Liquidity risk (Continued)

The maturity analysis for other borrowings is prepared based on the scheduled repayment dates.

	2012 Maturity Analysis – Undiscounted cash outflows				
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Trade payables	–	26,594	–	–	26,594
Accrued charges and other payables	–	263,118	–	–	263,118
Due to non-controlling shareholders	3,929	5,836	63,277	–	73,042
Other loan	–	–	6,250	–	6,250
Loan from a related company	–	–	15,180	–	15,180
Due to directors	76	–	–	–	76
	4,005	295,548	84,707	–	384,260

	2011 Maturity Analysis – Undiscounted cash outflows				
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Trade payables	–	7,282	–	–	7,282
Accrued charges and other payables	–	179,990	–	–	179,990
Due to a non-controlling shareholder	10,331	4,115	39,651	–	54,097
Bank overdrafts	3,847	–	–	–	3,847
Bank loan subject to a repayment on demand clause	3,867	–	–	–	3,867
Other bank loans	–	30,136	–	–	30,136
Other loans	–	12,166	–	–	12,166
Loan from a related company	–	–	14,149	–	14,149
	18,045	233,689	53,800	–	305,534

5. Financial risk management (Continued)

(d) Interest rate risk

The Group's significant borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

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

Except as stated above, the Group has no other significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	187,681	182,861
Financial liabilities:		
Financial liabilities at amortised cost	376,831	296,713

(f) Fair values

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

6. Turnover

The Group's turnover which represents sales of bags and barrels to customers, sales of coal and coal upgrading income are as follows:

	2012 HK$'000	2011 HK$'000
Sales of bags and barrels	254,114	288,549
Sales of coal	168,151	205,947
Coal upgrading income	8,241	–
	430,506	494,496

7. Other income

	2012 HK$'000	2011 HK$'000
Interest income	180	911
Gain on disposals of property, plant and equipment	160	40
Government grant (note)	1,771	–
Sundry income	412	–
	2,523	951

Note: Government grant was received as incentive for development of technology. There are no unfulfilled conditions or contingencies attached to the grant.

8. Segment information

The Group has three reportable segments as follows:

Bags	–	Manufacture and sale of plastic woven bags, paper bags and plastic barrels;
Coal	–	Trading and distribution of coal; and
Coal upgrading	–	Provision of low-rank coal upgrading services.

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

The accounting policies of the operating segments are the same as those described in Note 3 to the financial statements. Segment profit or loss represents the profit earned by each segment without allocation of corporate income and expense, central administration costs, interest income and finance costs. Segment assets excluded goodwill, corporate assets and deferred tax assets. Segment liabilities excluded corporate liabilities and deferred tax liabilities.

There were no intersegment sales during the year (2011: HK$Nil).

8. Segment information (Continued)

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

	Bags HK$'000	Coal HK$'000	Coal upgrading HK$'000	Total HK$'000
Year ended 31 December 2012				
Revenue from external customers	254,114	168,151	8,241	430,506
Segment profit/(loss)	51,682	(81,733)	647	(29,404)
Interest revenue	108	58	2	168
Interest expense	–	7,251	–	7,251
Income tax expense/(credit)	17,360	(28,596)	459	(10,777)
Depreciation and amortisation	7,145	31,593	963	39,701
Gain on disposals of property, plant and equipment	–	160	–	160
Impairment of property, plant and equipment	–	62,051	–	62,051
Capital expenditure	1,880	95,854	1,966	99,700
At 31 December 2012				
Segment assets	335,745	715,765	34,612	1,086,122
Segment liabilities	26,749	509,090	30,552	566,391
Year ended 31 December 2011				
Revenue from external customers	288,549	205,947	–	494,496
Segment profit/(loss)	34,213	(37,713)	–	(3,500)
Interest revenue	820	78	–	898
Interest expense	2,481	8,279	–	10,760
Income tax expense/(credit)	13,363	(13,580)	–	(217)
Depreciation and amortisation	7,369	26,225	–	33,594
Gain on disposals of property, plant and equipment	–	40	–	40
Capital expenditure	85	67,806	–	67,891
At 31 December 2011				
Segment assets	292,812	719,193	–	1,012,005
Segment liabilities	25,603	397,340	–	422,943

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For the year ended 31 December 2012

8. Segment information (Continued)

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

	2012 HK$'000	2011 HK$'000
Revenue	430,506	494,496
Profit or loss		
Total loss of reportable segments	(29,404)	(3,500)
Interest revenue	180	911
Interest expense	(7,444)	(11,125)
Unallocated corporate income	375	–
Unallocated corporate expenses	(27,416)	(8,470)
Consolidated loss for the year	(63,709)	(22,184)
Assets		
Total assets of reportable segments	1,086,122	1,012,005
Corporate assets	30,756	7,489
Deferred tax assets	57,071	25,810
Goodwill	2,907	–
Elimination of intersegment assets	(186,579)	(125,773)
Consolidated total assets	990,277	919,531
Liabilities		
Total liabilities of reportable segments	566,391	422,943
Corporate liabilities	12,978	8,625
Deferred tax liabilities	9,486	9,321
Elimination of intersegment liabilities	(194,418)	(129,653)
Consolidated total liabilities	394,437	311,236

8. Segment information (Continued)

Geographical information:

	Revenue		Non-current assets	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Hong Kong	–	–	76	76
The People's Republic of China (the "PRC") except Hong Kong	430,506	494,496	653,482	616,946
Consolidated total	430,506	494,496	653,558	617,022

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

The non-current assets information above is based on the location of assets and excludes deferred tax assets and goodwill.

Revenue from major customers:

	2012 HK$'000	2011 HK$'000
Bags segment		
Customer a	254,114	288,549
Coal segment		
Customer a	62,747	93,978
Coal upgrading segment		
Customer a	8,241	–

9. Finance costs

	2012 HK$'000	2011 HK$'000
Interest on bank loans and overdrafts	1,328	4,942
Interest on other loans	719	785
Interest on loan from a related company	735	715
Interest on loan from a director	61	–
Interest on loan from a non-controlling shareholder	3,979	3,796
Bank charges	622	887
	7,444	11,125

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For the year ended 31 December 2012

10. Income tax credit

	2012 HK$'000	2011 HK$'000
Current tax – Overseas		
Provision for the year	18,710	12,810
Under-provision in prior year	72	31
	18,782	12,841
Deferred tax (Note 29)	(29,559)	(13,058)
	(10,777)	(217)

(a) No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2012 as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: HK$Nil).

The subsidiaries, Changchun Yicheng Packaging Company Limited ("Changchun Yicheng"), Jilin Province De Feng Commodity Economics and Trade Co., Limited ("Jilin De Feng") and Changchun Guochuan Energy and Technology Development Company Limited ("Changchun Guochuan") operating in the PRC, are subject to enterprise income tax rate of 25% on its taxable profit in accordance with the PRC Income Tax Law.

The subsidiary, Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("Inner Mongolia Jinyuanli"), operating in the PRC, is subject to enterprise income tax rate of 25% on its taxable profit in accordance with the PRC Income Tax Law. No provision for enterprise income tax has been made as it has no assessable profit for the year.

10. Income tax credit (Continued)

(b) The reconciliation between income tax credit and the product of loss before tax multiplied by the PRC enterprise income tax rate is as follows:

	2012 HK$'000	2011 HK$'000
Loss before tax	(74,486)	(22,401)
Tax at the PRC enterprise income tax rate of 25% (2011: 25%)	(18,621)	(5,600)
Expenses not deductive for tax purposes	4,266	2,575
Income not taxable	(3)	(2)
Tax effect of temporary differences not recognised	179	228
Tax effect of tax loss not recognised	338	–
Effect of different tax rates	2,203	750
Deferred tax on undistributed earnings of the PRC subsidiaries	789	1,801
Under-provision in prior year	72	31
Income tax credit	(10,777)	(217)

The Group's taxable profits originate principally from the PRC and therefore the PRC enterprise income tax rate is used in presenting the reconciliation.

11. Loss for the year

The Group's loss for the year is stated after charging the following:

	2012 HK$'000	2011 HK$'000
Auditor's remuneration	800	788
Allowance for inventories (included in cost of inventories sold)	2,371	4,932
Amortisation of mining right	1,383	1,873
Cost of inventories sold	354,499	425,631
Depreciation of property, plant and equipment	38,294	31,694
Impairment of property, plant and equipment	62,051	–
Operating lease rentals in respect of buildings	1,634	869

Cost of inventories sold includes staff costs, allowance for inventories, operating lease rentals, amortisation of mining right and depreciation of approximately HK$70,796,000 (2011: HK$80,225,000) which are included in the amounts disclosed separately.

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For the year ended 31 December 2012

12. Staff costs (including directors' emoluments)

	2012 HK$'000	2011 HK$'000
Wages and salaries	49,751	59,818
Retirement benefits scheme contributions	3,926	20,273
	53,677	80,091

13. Directors' and employees' emoluments

(a) Directors' emoluments

The emoluments of each director were as follows:

Name of director	Fees HK$'000	Salaries and allowances HK$'000	Inducement fees HK$'000	Retirement benefit scheme contributions HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Mr. Mak Shiu Chung, Godfrey	–	1,800	–	14	–	1,814
Mr. Xu Bin	–	1,800	–	14	–	1,814
Mr. Zhang Chao Liang	5	–	–	–	–	5
Mr. Wang Hon Chen	192	138	–	9	–	339
Mr. Kwok Chi Shing	120	–	–	–	–	120
Mr. Tsang Wai Sum	120	–	–	–	–	120
Mr. Yu Yang	144	–	–	–	–	144
Total for 2012	581	3,738	–	37	–	4,356
Mr. Mak Shiu Chung, Godfrey	–	1,800	–	12	–	1,812
Mr. Xu Bin	–	1,800	–	12	–	1,812
Mr. Zhang Chao Liang	5	–	–	–	–	5
Mr. Wang Hon Chen	192	148	–	7	–	347
Mr. Kwok Chi Shing	120	–	–	–	–	120
Mr. Tsang Wai Sum	120	–	–	–	–	120
Mr. Yu Yang	5	–	–	–	–	5
Total for 2011	442	3,748	–	31	–	4,221

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2011 and 2012.

13. Directors' and employees' emoluments (Continued)

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2011: two) individuals are set out below:

	2012 HK$'000	2011 HK$'000
Basic salaries and allowances	1,090	933
Retirement benefits scheme contributions	23	59
	1,113	992

The emoluments of these two (2011: two) highest paid individuals are less than HK$1,000,000.

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

14. Dividends

	2012 HK$'000	2011 HK$'000
Final dividend proposed of HK0.65 cent (2011: HK0.5 cent) per ordinary share	6,209	3,659

A final dividend in respect of the year 2012 of HK0.65 cent per ordinary share, totalling approximately HK$6,209,000 are proposed by the Board. The dividends are subject to approval by shareholders at the forthcoming annual general meeting ("AGM") and have not been included as liabilities in these consolidated financial statements. The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these consolidated financial statements.

15. Loss per share

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$25,385,000 (2011: HK$2,292,000) and the weighted average number of ordinary shares of 879,500,606 (2011 restated: 878,277,427) in issue during the year.

The weighted average numbers of ordinary shares for the purpose of calculating basic loss per share have been retrospectively adjusted to reflect the bonus issue completed on 12 October 2012. Details of the bonus issue are set out in Note 30(b).

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive ordinary shares during the year ended 31 December 2011.

The effect of all potential ordinary shares are anti-dilutive for the year ended 31 December 2012.

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For the year ended 31 December 2012

16. Property, plant and equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Mining structures HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2011	178,608	751	95,309	161,588	38,594	8,010	23,610	506,470
Additions	-	90	-	1,200	2,643	2,216	61,826	67,975
Disposals	-	-	-	-	-	(329)	-	(329)
Transfer	50,875	-	11,031	13,376	10,292	1	(85,575)	-
Exchange differences	8,588	27	4,180	6,983	1,899	375	373	22,425
At 31 December 2011	238,071	868	110,520	183,147	53,428	10,273	234	596,541
At 1 January 2012	238,071	868	110,520	183,147	53,428	10,273	234	596,541
Acquisition of subsidiaries	-	-	-	23,101	3,089	1,660	476	28,326
Additions	-	-	-	6,502	309	252	92,678	99,741
Disposals	-	-	-	(49)	-	(795)	-	(844)
Reclassification	(50,550)	-	50,550	-	-	-	-	-
Transfer	342	-	44,395	40,645	3,252	-	(88,634)	-
Exchange differences	3,055	12	3,341	4,311	999	200	81	11,999
At 31 December 2012	190,918	880	208,806	257,657	61,077	11,590	4,835	735,763
Accumulated depreciation and impairment								
At 1 January 2011	13,668	212	832	22,045	2,890	1,840	-	41,487
Charge for the year	8,735	15	1,968	14,195	4,943	1,838	-	31,694
Disposals	-	-	-	-	-	(99)	-	(99)
Exchange differences	778	3	84	1,258	238	119	-	2,480
At 31 December 2011	23,181	230	2,884	37,498	8,071	3,698	-	75,562
At 1 January 2012	23,181	230	2,884	37,498	8,071	3,698	-	75,562
Charge for the year	10,014	20	1,557	18,683	6,025	1,995	-	38,294
Impairment (Note b)	1,283	-	47,253	12,505	1,010	-	-	62,051
Disposals	-	-	-	(22)	-	(379)	-	(401)
Reclassification	(3,527)	-	3,527	-	-	-	-	-
Exchange differences	504	2	898	1,117	243	86	-	2,850
At 31 December 2012	31,455	252	56,119	69,781	15,349	5,400	-	178,356
Carrying amount								
At 31 December 2012	159,463	628	152,687	187,876	45,728	6,190	4,835	557,407
At 31 December 2011	214,890	638	107,636	145,649	45,357	6,575	234	520,979

(a) At 31 December 2012, the carrying amount of certain buildings amounted to HK$68,805,000 (2011: HK$72,003,000) for which relevant legal titles have not yet been obtained. At the date of approval of these consolidated financial statements, the application for obtaining the aforesaid legal titles is still in progress.

(b) At 31 December 2012, the Group's management appointed professional appraisers to perform appraisals on the Group's principal mining structures and related assets for the purpose of determining if the assets have been impaired for those group of assets that have impairment indications and determined that a number of those assets were fully impaired. Impairment loss of HK$1,283,000, HK$47,253,000, HK$12,505,000 and HK$1,010,000 has been recognised in respect of buildings, mining structures, plant and machinery and furniture, fixtures and equipment respectively for the year.

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For the year ended 31 December 2012

17. Prepaid land lease payments

	2012 HK$'000	2011 HK$'000
At 1 January	2,944	2,890
Amortisation for the year	(65)	(64)
Exchange differences	46	118
At 31 December	2,925	2,944
Current portion	(66)	(84)
Non-current portion	2,859	2,860

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under medium term leases.

18. Intangible asset

	Mining right HK$'000
Cost	
At 1 January 2011	92,165
Exchange differences	3,775
At 31 December 2011 and 1 January 2012	95,940
Exchange differences	1,560
At 31 December 2012	97,500
Accumulated amortisation	
At 1 January 2011	805
Amortisation for the year	1,873
Exchange differences	79
At 31 December 2011 and 1 January 2012	2,757
Amortisation for the year	1,383
Exchange differences	68
At 31 December 2012	4,208
Carrying amount	
At 31 December 2012	93,292
At 31 December 2011	93,183

The mining right represents the purchase cost of the exclusive right for certain volume of underground coal at Inner Mongolia Mine 958 (the "Mine").

Subsequent to the end of the reporting period, the final coal production licences and approval of commercial production were granted to the Group from respective regulatory bodies and the commercial production of coal from the mine was commenced in late March 2013.

19. GOODWILL

	HK$'000
Cost	
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Arising on acquisition of subsidiaries (Note 35(a))	2,907
At 31 December 2012	2,907

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the coal upgrading CGU.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, inflation rate and budgeted turnover during the period. The Group estimates discount rate using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The inflation rate is based on average inflation rate of the geographical area in which the business of the CGU operates. Budgeted turnover is based on past practices and expectations on service volume and unit price.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by the directors for the next five years with the residual period using the inflation rate of 3%. This rate does not exceed the average inflation rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's coal upgrading income is 25%.

20. Inventories

	2012 HK$'000	2011 HK$'000
Raw materials	42,539	28,473
Work in progress	10,011	10,228
Finished goods	15,132	36,955
	67,682	75,656

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For the year ended 31 December 2012

21. Trade receivables

The general credit terms of sales of bags and barrels, sales of coal and coal upgrading business are 30 days.

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

	2012 HK$'000	2011 HK$'000
0 to 90 days	77,782	69,432
91 to 180 days	18,752	16,818
181 to 365 days	31,445	3,237
Over 365 days	1,166	3,943
	129,145	93,430

At 31 December 2011, approximately HK$22,197,000 of trade receivables were pledged to a bank to secure a bank loan. The aforesaid bank loan was fully repaid during the year and the pledge was released accordingly.

As of 31 December 2012, trade receivables of approximately HK$95,431,000 (2011: HK$18,861,000) were past due but not impaired. These relate to several independent customers that have good track record with the Group. The ageing analysis of these trade receivables is as follows:

	2012 HK$'000	2011 HK$'000
Up to 90 days	44,068	12,735
91 to 180 days	18,752	5,048
181 to 365 days	31,445	1,078
Over 365 days	1,166	–
	95,431	18,861

Subsequent to 31 December 2012, the Group received cash settlement amount of approximately HK$76 million (2011: HK$14 million) for balances past due but not impaired. For the remaining balances overdue, these relate to several independent customers that have good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the Group's trade receivables are wholly denominated in Renminbi ("RMB").

22. Deposits, prepayments and other receivables

At 31 December 2011, approximately HK$15,433,000 of other receivables were pledged to a bank to secure a bank loan. The aforesaid bank loan was fully repaid during the year and the pledge was released accordingly.

23. Pledged and restricted bank deposits

At 31 December 2011, the Group's pledged bank deposit of approximately HK$7,018,000 represented deposit pledged to a bank to secure a banking facility granted to the Group. During the year, the Group terminated the banking facility and the aforesaid deposit was released accordingly.

The Group's restricted bank deposit of approximately HK$7,962,000 (2011: HK$4,964,000) is the deposit kept for the coal mining business, which is required by related coal mining regulation in the PRC. The aforesaid deposit is in RMB and at market interest rate.

24. Bank and cash balances

At 31 December 2012, the Group's bank and cash balances denominated in RMB and kept in the PRC amounted to approximately HK$10,520,000 (2011: HK$37,034,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. Trade payables

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2012 HK$'000	2011 HK$'000
0 to 90 days	7,906	6,890
91 to 180 days	12,909	380
181 to 270 days	–	–
271 to 365 days	5,686	–
Over 365 days	93	12
	26,594	7,282

The carrying amounts of the Group's trade payables are wholly denominated in RMB.

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26. Due to non-controlling shareholders

The analysis of the carrying amount of the amounts due to non-controlling shareholders is as follows:

	Note	2012 HK$'000	2011 HK$'000
Current liabilities			
Advances	(a)	3,929	2,460
Other payables	(b)	2,011	7,871
		5,940	10,331
Non-current liabilities			
Loans	(c)	47,507	36,900
Other payables	(b)	13,223	–
		60,730	36,900
		66,670	47,231

Notes:

(a) The advances are unsecured, interest-free and repayable on demand.

(b) Included in the other payables of approximately HK$13,223,000 (2011:HK$Nil) are unsecured, interest-free and repayable on 31 August 2014 and the remaining other payables of approximately HK$2,011,000 (2011: HK$7,871,000) are unsecured, interest-free and repayable at normal business term.

(c) Included in the loans are loan of approximately HK$37,500,000 (2011: HK$36,900,000)which is unsecured, interest bearing at 10.20% (2011: 11.15%) per annum and repayable on 31 August 2014 (2011: 31 August 2013) and the remaining loans of approximately HK$5,000,000 and HK$5,007,000 (2011: HK$Nil) are unsecured, interest-free and repayable on 31 March 2014 and 30 June 2014 respectively.

The carrying amount is wholly denominated in RMB.

The directors estimate the fair value of the Group's amounts to non-controlling shareholders, by discounting their future cash flows at the market rate, to be as follows:

	2012 HK$'000	2011 HK$'000
Advances	3,929	2,460
Others	13,983	7,871
Loans	48,940	39,307
	66,852	49,638

27. Due to directors

The amounts due to directors are unsecured, interest-free and repayable on demand.

28. Borrowings

The analysis of the carrying amount of the Group's borrowings is as follows:

	Note	2012 HK$'000	2011 HK$'000
Current liabilities			
Bank overdrafts	(a)	–	3,847
Portion of bank loans due for repayment within one year	(a)	–	33,899
		–	37,746
Other loans	(b)	–	11,302
		–	49,048
Non-current liabilities			
Other loan	(b)	6,250	–
Loan from a related company	(c)	14,123	13,162
		20,373	13,162
		20,373	62,210

28. Borrowings (Continued)

Notes:

(a) During the year, the bank loans and overdrafts were fully repaid.

(b) At 31 December 2012, the other loan is unsecured, interest-free and repayable on 31 March 2014.

At 31 December 2011, included in other loans are loans of approximately HK$2,460,000 and HK$8,842,000 which are unsecured, interest bearing at 10% and 8% per annum and repayable on 19 August 2012 and 31 December 2012 respectively.

(c) Loan from a related company is unsecured, interest bearing at 6% (2011: 6%) per annum and repayable on 31 March 2014 (2011: 31 March 2013). The Company is related to the extent that Mr. Zhang Chao Liang, executive director of the Company, has control over the related company.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2012 HK$'000	2011 HK$'000
RMB	20,373	54,563
HK$	–	7,647
	20,373	62,210

	2012	2011
The average interest rate of total borrowings per annum at 31 December	4.16%	6.30%

The other loan and loan from a related company are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The directors estimate the fair value of the Group's borrowings, by discounting their future cash flows at the market rate, to be as follows:

	2012 HK$'000	2011 HK$'000
Bank overdrafts	–	3,847
Bank loans	–	33,969
Other loans	5,802	11,475
Loan from a related company	14,091	13,140
	19,893	62,431

29. Deferred tax

The following are the major deferred tax assets/(liabilities) recognised by the Group:

	Decelerated tax depreciation HK$'000	Future deductible expenses HK$'000	Undistributed earnings of the PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2011	3,373	6,790	(7,520)	2,643
Credit/(charge) to profit or loss for the year (note 10)	4,108	10,751	(1,801)	13,058
Exchange differences	241	547	–	788
At 31 December 2011 and 1 January 2012	7,722	18,088	(9,321)	16,489
Credit/(charge) to profit or loss for the year (note 10)	(1,691)	32,039	(789)	29,559
Withholding tax paid	–	–	624	624
Exchange differences	98	815	–	913
At 31 December 2012	6,129	50,942	(9,486)	47,585

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2012 HK$'000	2011 HK$'000
Deferred tax liabilities	(9,486)	(9,321)
Deferred tax assets	57,071	25,810
	47,585	16,489

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30. Share capital

	Note	Authorised Ordinary shares of HK$0.10 each No. of shares	HK$'000
At 1 January 2011, 31 December 2011 and 31 December 2012		10,000,000,000	1,000,000

	Note	Issued and fully paid Ordinary shares of HK$0.10 each No. of shares	HK$'000
At 1 January 2011		609,914,880	60,991
Issue of bonus shares	(a)	121,982,976	12,199
At 31 December 2011 and 1 January 2012		731,897,856	73,190
Issue of bonus shares	(b)	146,379,571	14,638
Exercise of warrants	(c)	41,054,766	4,105
At 31 December 2012		919,332,193	91,933

Notes:

(a) On 14 October 2011, 121,982,976 new ordinary shares of HK$0.10 each were allotted and issued as bonus shares on the basis of one bonus share for every five shares held by the shareholders. The bonus shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(b) On 12 October 2012, 146,379,571 new ordinary shares of HK$0.10 each were allotted and issued as bonus shares on the basis of two bonus shares for every ten shares held by the shareholders. The bonus shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(c) On 19 and 31 December 2012, 33,885,714 and 7,169,052 shares of the Company were issued upon exercise of warrants at an exercise price of HK$0.7 per share, and the premium on the issue of shares, amounting to approximately HK$24,633,000 in aggregate was credited to the Company's share premium account (Note 32(b)).

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

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

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars quarterly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. At 31 December 2012, 67.93% (2011: 65.75%) of the shares were in public hands.

31. Share option scheme

The Company's share option scheme (the "Scheme") was adopted on 20 August 2009 for a period of 10 years. A summary of the principal terms of the Scheme is set out in the circular of the Company dated 4 August 2009.

Under the Scheme, the directors may, at their discretion, offer options to Participants (as defined in the circular of the Company dated 4 August 2009) to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK$
Independent third party contractors	9 January 2012	Nil	9 January 2012 to 8 January 2014	0.675*

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

	2012	
	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	–	–
Granted during the year	87,600,000*	0.675*
Outstanding at the end of the year	87,600,000	0.675
Exercisable at the end of the year	87,600,000	0.675

* The number of share options and exercise price have been adjusted to reflect the bonus issue during the year.

The options outstanding at the end of the year have a weighted average remaining contractual life of 1 year and the exercise prices was HK$0.675. In 2012, options were granted on 9 January 2012. The estimated fair value of the options is HK$14,892,000.

31. Share option scheme (Continued)

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

	2012
Weighted average share price – HK$ (unadjusted)	0.80
Weighted average exercise price – HK$ (unadjusted)	0.81
Expected volatility	70.544%
Expected life	1 year
Risk free rate	0.30%
Expected dividend yield	2.80%

The expected volatility is the historical volatility of the Company over the most recent period commensurate with the expected life of the options and reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Since there is no exercise history of share options issued by the Company, the expected life of options is assumed to be at the mid-point of the corresponding exercisable period of the options.

Share options granted to contractors were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

32. Warrants

		2012	
	Note	Number of warrants	Weighted average exercise price HK$
Outstanding at the beginning of the year		–	–
Issue of warrants	(a)	174,814,766	0.7
Exercise of warrants			
– 19 December 2012	(b)	(33,885,714)	0.7
– 31 December 2012	(b)	(7,169,052)	0.7
Outstanding at the end of the year		133,760,000	0.7

32. Warrants (Continued)

(a) On 18 January 2012, the Company and a placing agent entered into a Warrant Placing Agreement to procure not less than six placees to subscribe for up to 146,376,000 warrants at issue price of HK$0.01 per warrant. The exercise price of each warrant is HK$0.836 and the subscription rights attaching to the warrants can be exercised at any time during a period of two years commencing from the date of issue of the warrants i.e. 18 January 2012.

On 10 February 2012, the conditions of the Warrant Placing Agreement have been fulfilled and the Warrant Placing was completed. The proceeds of approximately HK$1,464,000 were received and credited to the warrant reserve of the Company.

Subsequent to the issue of bonus shares of the Company (Note 30(b)), the exercise price was adjusted to HK$0.7 per warrant share and the number of shares exercisable of the warrants outstanding was adjusted to 174,814,766.

(b) On 19 and 31 December 2012, 33,885,714 and 7,169,052 warrants were exercised respectively at HK$0.7 per share resulting for a total cash proceeds of approximately HK$28,738,000 to the Company (Note 30(c)).

33. Financial position of the Company

	Note	2012 HK$'000	2011 HK$'000
Interests in subsidiaries		284,576	272,721
Other current assets		29,092	7,191
Other liabilities		(20,954)	(12,952)
Borrowings		–	(3,847)
NET ASSETS		292,714	263,113
Share capital		91,933	73,190
Other reserves	34(b)	300,463	280,321
Accumulated losses		(105,891)	(94,057)
Proposed final dividend		6,209	3,659
TOTAL EQUITY		292,714	263,113

34. Other reserves

(a) Group

	Note	Share premium HK$'000	Capital reserve HK$'000	Future development fund HK$'000	Safety fund HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Warrants reserve HK$'000	Total HK$'000
At 1 January 2011		288,603	(1,628)	-	-	33,644	-	-	320,619
Issue of bonus shares	30(a)	(12,199)	-	-	-	-	-	-	(12,199)
Appropriations		-	-	11,795	3,104	-	-	-	14,899
Other comprehensive income:									
Exchange differences on translating foreign operations		-	-	-	-	18,494	-	-	18,494
At 31 December 2011		276,404	(1,628)	11,795	3,104	52,138	-	-	341,813
At 1 January 2012		276,404	(1,628)	11,795	3,104	52,138	-	-	341,813
Issue of bonus shares	30(b)	(14,638)	-	-	-	-	-	-	(14,638)
Share-based payments		-	-	-	-	-	14,892	-	14,892
Issue of warrants	32(a)	-	-	-	-	-	-	1,464	1,464
Exercise of warrants	30(c)	24,633	-	-	-	-	-	-	24,633
Transfer to share premium upon exercise of warrants		344	-	-	-	-	-	(344)	-
Net appropriations		-	-	5,848	7,807	-	-	-	13,655
2012 proposed final dividend	14	(6,209)	-	-	-	-	-	-	(6,209)
Other comprehensive income:									
Exchange differences on translating foreign operations		-	-	-	-	7,242	-	-	7,242
At 31 December 2012		280,534	(1,628)	17,643	10,911	59,380	14,892	1,120	382,852

(b) Company

	Note	Share premium HK$'000	Capital reserve HK$'000	Share-based payment reserve HK$'000	Warrants reserve HK$'000	Total HK$'000
At 1 January 2011		288,603	3,917	–	–	292,520
Issue of bonus shares	30(a)	(12,199)	–	–	–	(12,199)
At 31 December 2011		276,404	3,917	–	–	280,321
At 1 January 2012		276,404	3,917	–	–	280,321
Issue of bonus shares	30(b)	(14,638)	–	–	–	(14,638)
Share-based payments		–	–	14,892	–	14,892
Issue of warrants	32(a)	–	–	–	1,464	1,464
Exercise of warrants	30(c)	24,633	–	–	–	24,633
Transfer to share premium upon exercise of warrants		344	–	–	(344)	–
2012 proposed final dividend	14	(6,209)	–	–	–	(6,209)
At 31 December 2012		280,534	3,917	14,892	1,120	300,463

34. Other reserves (Continued)

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Capital reserve

The capital reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2001 and represented the difference between the nominal value of the aggregate share capital of the subsidiaries acquired under the reorganisation scheme, over the nominal value of the share capital of the Company issued in exchange therefore.

(iii) Future development fund

Pursuant to the relevant PRC regulations, the Group is required to set aside an amount to a future development fund at RMB9.5 per ton of raw coal mined. The fund can be used for future development of the coal mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditure, an equivalent amount is transferred from future development fund to retained earnings.

(iv) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund at RMB15 (2011: RMB2.5) per ton of raw coal mined. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings.

(v) Foreign currency translation reserve

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

(vi) Share-based payment reserve

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

(vii) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. Warrant reserve will be transferred to share premium account upon the exercise of the warrants or released to retained profits if the warrants remain unexercised at the expiry date.

35. Notes to the consolidated statement of cash flows

(a) Acquisition of subsidiaries

On 18 May 2012, the Group acquired 100% of the issued share capital of Pak Yip Holdings Investment Limited ("Pak Yip"), for a cash consideration of HK$300,000. Pak Yip was an investment holding company and the principal activity of its subsidiaries was engaged in coal upgrading during the year.

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

Net liabilities acquired:	HK$'000
Property, plant and equipment	28,326
Trade receivables	882
Prepayments, deposits and other receivables	973
Bank and cash balances	690
Other payables	(7,224)
Other loans	(6,100)
Loan from a non-controlling shareholder	(19,323)
Current tax liabilities	(167)
	(1,943)
Non-controlling interest	(664)
Goodwill (Note 19)	2,907
Cash consideration	300
Net cash inflow arising on acquisition:	
Cash consideration paid	300
Cash and cash equivalents acquired	(690)
	(390)

The goodwill arising on the acquisition of Pak Yip is attributable to the anticipated future operating synergies from the combination.

Pak Yip contributed approximately HK$8,241,000 and HK$663,000 to the Group's turnover and loss for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2012, total Group turnover for the year would have been HK$433,312,000, and loss for the year would have been HK$66,156,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is intended to be a projection of future results.

35. Notes to the consolidated statement of cash flows (Continued)

(b) major non-cash transaction

During the year, the Group sold certain motor vehicles for settlement of its trade payables at approximately HK$586,000.

36. Capital commitments

At 31 December 2012, the Group had capital commitments as follows:

	2012 HK$'000	2011 HK$'000
Mining structures		
Contracted but not provided for	201	1,102

37. Lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012 HK$'000	2011 HK$'000
Within one year	1,637	678
In the second to fifth years inclusive	3,348	–
After five years	2,031	–
	7,016	678

38. Related party transactions

Apart from the transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2012 HK$'000	2011 HK$'000
Cash consideration paid for acquisition of subsidiaries to a director	300	–
Loan interest paid to a director	61	–
Loan interest paid to a related company	735	715

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39. Events after the reporting period

(a) In January 2013, the subscription rights attaching to 35,828,572 warrants issued by the Company were exercised at the subscription price of HK$0.7 per share, resulting in the issue of 35,828,572 shares of HK$0.1 each for a total cash consideration of approximately HK$25,080,000.

(b) In February 2013, the Company was informed that the Coal Mine has obtained the safety production licence dated 24 December 2012 issued by Inner Mongolia Coal Mine Safety Supervision Bureau and the coal production licence dated 31 January 2013 issued by the Coal Industry Bureau of Inner Mongolia Autonomous Region. On 25 March 2013, the Company was informed that the local authority at the Tongliao City, Inner Mongolia has on 20 March 2013 approved the Coal Mine to commence commercial production and the commercial production was commenced in late March 2013.

(c) On 28 March 2013, the directors recommended a bonus issue of shares to the owners of the Company on the basis of two bonus shares for every ten shares of the Company being held. The bonus issue of shares are subject to approval by the shareholders at the forthcoming AGM to be held on Wednesday, 19 June 2013. The bonus shares will rank pari passu in all respect with the ordinary shares of the Company and the Company will not allot any fractions of bonus shares.

40. Principal subsidiaries

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

Name	Place of registration and operation	Paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Changchun Yicheng	The PRC	RMB60,000,000	100%	Manufacturing and sale of plastic woven bags, paper bags and plastic barrels
Changchun Guochuan	The PRC	RMB5,000,000	80%	Coal upgrading
Inner Mongolia Jinyuanli	The PRC	USD45,000,000	56.2%	Coal mining*
Jilin De Feng	The PRC	RMB20,000,000	51%	Coal trading

* The commercial production of coal from the Mine was commenced in late March 2013 (Note 18).

41. Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2013.