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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in DeTeam Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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# DeTeam Company Limited

弘海有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 65)

**(A) PROPOSED SHARE CONSOLIDATION;  
(B) PROPOSED OPEN OFFER ON THE BASIS OF  
ONE (1) OFFER SHARE FOR EVERY ONE (1) CONSOLIDATED  
SHARE HELD ON THE RECORD DATE; AND  
(C) APPLICATION FOR WHITEWASH WAIVER**

**Underwriter of the Open Offer  
Hong Kong Hang Kei Company Limited**

**Financial Adviser to the Company**



**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

寶  
橋  
BRIDGE PARTNERS

**BRIDGE PARTNERS CAPITAL LIMITED**

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Capitalized terms used in this cover page shall have the same meanings as those defined in this circular.

A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company is set out on page 37 to page 63 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 36 of this circular.

The Open Offer is subject to the satisfaction of certain conditions as described in the paragraph headed "Conditions of the Underwriting Agreement". In particular, it is subject to, among other things, the Share Consolidation having become effective, the approval of the Open Offer and the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll, the Whitewash Waiver having been granted by the Executive, and the Underwriting Agreement having become unconditional and not having been terminated (see the paragraph headed "Termination of the Underwriting Agreement" below). Accordingly, the Open Offer may or may not proceed.

A notice convening the EGM to be held at Suite No. 3 31st Floor, Sino Plaza 255-257 Gloucester Road, Hong Kong at 3:00 p.m., 20 October 2014 is set out on pages 157 to 159 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of the Company in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

Shareholders and potential investors should note that the Shares are expected to be dealt in on an ex-entitlement basis commencing from Friday, 31 October 2014 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on 5:00 p.m. on Monday, 1 December 2014), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

\* For identification purposes only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:*

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 8 August 2014 in relation to, among other things, the proposed Open Offer, the proposed Share Consolidation and the Whitewash Waiver
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	board of the Directors
“Business Day”	a day (other than a Saturday, a Sunday or a public holiday or a day on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	DeTeam Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Open Offer and the Share Consolidation
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended from time to time)
“Consolidated Share(s)”	ordinary share(s) of HK\$0.50 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement, the Whitewash Waiver and the transactions contemplated thereunder
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director

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## DEFINITIONS

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“Existing Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company prior to the Share Consolidation having become effective
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Hang Kei” or “Underwriter”	Hong Kong Hang Kei Company Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Xu
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	an independent board committee of the Company comprising Mr. Kwok Chi Shing, Mr. Tsang Wai Sum and Mr. Huang Shao Ru, being all the independent non-executive Directors, which has been established to advise the Independent Shareholders on the terms of Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer) the Underwriting Agreement and the Whitewash Waiver
“Independent Financial Adviser” or “Bridge Partners”	Bridge Partners Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver
“Independent Property Valuer”	Under Rule 11 of the Takeover Code, DTZ Debenham Tie Leung Limited being a valuer who meets the requirements of an “independent valuer” as defined in Appendix 1.1 of “The HKIS Valuation Standards on Properties” published by the Hong Kong Institute of Surveyors and, in addition, it has no material connection with other parties to the transaction
“Independent Shareholders”	Shareholders other than Mr. Xu, the Underwriter and parties acting in concert with any of them and those who are involved in or interested in the Share Consolidation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver who are required by the Listing Rules and/or the Takeovers Code to abstain from voting in respect of the resolution(s) relating to the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver to approve the resolutions at the EGM

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## DEFINITIONS

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“Independent Third Party(ies)”	party or parties that is or are independent of and not connected with the Company and connected persons of the Company within the meaning of the Listing Rules
“Last Trading Day”	29 July 2014, being the last trading day for the Shares immediately prior to the date of the Announcement
“Latest Lodging Date”	4:30 p.m. on 3 November 2014 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares in order to be qualified for the Open Offer
“Latest Practicable Date”	26 September 2014, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Latest Time for Acceptance”	4:00 p.m. on 24 November 2014 or such later date and/or time as the Underwriter and the Company may agree as the latest time for acceptance of, and payment for, the Offer Shares as to be set out in the Prospectus
“Latest Time for Termination”	4:00 p.m. on the fifth Business Day after the Latest Time for Acceptance or such later time or date as may be agreed by the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement
“License Agreement”	the proprietary technology license agreement dated 18 May 2012 and entered into between Mr. Xu as licensor and Beijing Guochuan as licensee, pursuant to which Mr. Xu agreed to grant to Beijing Guochuan and its affiliates, the right to use six coal-upgrading patented technologies in the PRC owned by Mr. Xu for a term of three years, the details of which had been disclosed in the announcement of the Company dated 18 May 2012
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility Agreement”	the loan facility agreement dated 8 May 2014 and entered into between Mr. Xu as lender and the Company as borrower in respect of the provision of HK\$200,000,000 loan facility with the interest rate of 5% per annum and a term of 3 years, which is available for multiple drawdowns within 6 months from the date of the loan facility agreement (no drawdown had been made by the Company as at the Latest Practicable Date)

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## DEFINITIONS

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“Mr. Xu”	Mr. Xu Bin, an executive Director and the co-chairman of the Company
“Offer Share(s)”	229,238,583 new Consolidated Shares proposed to be offered to the Qualified Shareholders for subscription on the basis of one Offer Share for every one Consolidated Share held on the Record Date and payable in full on acceptance pursuant to the Open Offer
“Open Offer”	the proposed issue of the Offer Shares by way of open offer to the Qualified Shareholders on the terms to be set out in the Prospectus Documents and summarised therein
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer
“Overseas Shareholders”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
“PRC”	the People’s Republic of China
“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to them
“Project Management Contract”	The project management contract dated 9 November 2013 entered into between Beijing Guochuan and Xilinhaote City Guochuan Energy Technology Development Co., Ltd (both an indirect wholly-owned subsidiary of the Company), and Dalian Shipbuilding Industry Equipment Manufacturing Company Limited for the construction of the production facilities of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the application form in respect of the assured allotment of Offer Shares
“Prospectus Posting Date”	the date of posting the Prospectus Documents to Qualifying Shareholders and the Prospectus to Prohibited Shareholders for information only
“Qualifying Shareholders”	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date

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## DEFINITIONS

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“Record Date”	7 November 2014, being the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Securities”	has the meaning ascribed to it in Note 4 to Rule 22 of the Takeovers Code
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Existing Share(s) or Consolidated Share(s), as the case may be
“Share Consolidation”	the proposed consolidation of every five (5) Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of HK\$0.50 in the issued and unissued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specified Event”	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.500 per Consolidated Share for the Offer Shares
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 29 July 2014 entered into between the Company and the Underwriter in relation to the Open Offer



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## EXPECTED TIMETABLE

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*The expected timetable for the Share Consolidation and the Open Offer set out below is indicative only and it has been prepared on the assumption that the Whitewash Waiver will be approved by the Independent Shareholders at the EGM. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.*

<b>Event</b>	<b>Year 2014</b>
Latest time for return of proxy form of the EGM . . . . .	3:00 p.m., 18 October, Saturday
Expected date and time of the EGM . . . . .	3:00 p.m., 20 October, Monday
Announcement of poll results of the EGM . . . . .	20 October, Monday
Expected effective date of the Share Consolidation. . . . .	21 October, Tuesday
Dealings in Consolidated Shares commence . . . . .	9:00 a.m., 21 October, Tuesday
Original counter for trading in Existing Shares in board lots of 4,000 Shares temporarily closes . . . . .	9:00 a.m., 21 October, Tuesday
Temporary counter for trading in Consolidated Shares in board lots of 800 Consolidated Shares (in the form of existing share certificates) opens. . . . .	9:00 a.m., 21 October, Tuesday
First day of free exchange of existing share certificates for new share certificates for Consolidated Shares . . . . .	9:00 a.m., 21 October, Tuesday
Last day of dealing in Shares on a cum-rights basis . . . . .	30 October, Thursday
First day of dealing in Shares on an ex-rights basis . . . . .	31 October, Friday
Latest time for lodging transfer of Shares in order to qualify for the Open Offer. . . . .	4:30 p.m., 3 November, Monday
Original counter for trading in Consolidated Shares in board lots of 4,000 Consolidated Shares (in the form of new share certificates) reopens . . . . .	9:00 a.m., 4 November, Tuesday
Parallel trading in Consolidated Shares (in the form of new share certificates and existing share certificates) commences . . . . .	9:00 a.m., 4 November, Tuesday
First day of operation of odd lot trading facility . . . . .	9:00 a.m., 4 November, Tuesday
Register of members of the Company closes (both dates inclusive) . . . . .	4 November – 7 November, Tuesday – Friday

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## EXPECTED TIMETABLE

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Record Date .....	7 November, Friday
Register of members of the Company re-opens .....	10 November, Monday
Despatch of the Prospectus Documents (in case of the Prohibited Shareholders, the Prospectus only) .....	10 November, Monday
Latest time for acceptance of and payment for the Offer Shares .....	4:00 p.m., 24 November, Monday
Temporary counter for trading in Consolidated Shares in board lots of 800 Consolidated Shares (in the form of existing share certificates) closes .....	4:00 p.m., 24 November, Monday
Parallel trading in Consolidated Shares (in the form of new share certificates and existing share certificates) ends .....	4:00 p.m., 24 November, Monday
Last day of operation of odd lot trading facility .....	4:00 p.m., 24 November, Monday
Last day for free exchange of existing share certificates for new share certificates for Consolidated Shares .....	4:30 p.m., 26 November, Wednesday
Latest time for the termination of the Underwriting Agreement by the Underwriter and the Open Offer becomes unconditional .....	5:00 p.m., 1 December, Monday
Announcement of results of acceptance of the Open Offer and completion of the Open Offer .....	3 December, Wednesday
Despatch of certificates for Offer Shares .....	4 December, Thursday
Commencement of dealings in Offer Shares .....	9:00 a.m., 5 December, Friday

*Note:* All references to time in this circular are references to Hong Kong time.

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## **EXPECTED TIMETABLE**

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### **EFFECT OF BAD WEATHER AT THE LATEST TIME FOR ACCEPTANCE**

The Latest Time for Acceptance will be postponed if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 24 November 2014. Instead, the Latest Time for Acceptance will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates mentioned in the section headed “EXPECTED TIMETABLE” in this circular may be affected. An announcement will be made by the Company in such event.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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### TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination (provided that for the purposes if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains in force in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains in force in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the sole and absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/ or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
  - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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- (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer, or
- (7) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the reasonable opinion of any of the Underwriter, a material omission in the context of the Open Offer; or
- (8) any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise,

the Underwriter shall be at its sole and absolute discretion entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

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## LETTER FROM THE BOARD

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# DeTeam Company Limited

弘海有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 65)

*Executive Directors:*

Mr. Xu Bin

Mr. Mak Shiu Chung, Godfrey

Mr. Zhang Fusheng

Mr. Wang Hon Chen

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Independent non-executive Directors:*

Mr. Kwok Chi Shing

Mr. Tsang Wai Sum

Mr. Huang Shao Ru

*Principal place of business in Hong Kong:*

Suite No.3, 31st Floor

Sino Plaza

255-257 Gloucester Road

Hong Kong

30 September 2014

*To the Shareholders*

Dear Sir or Madam,

**(A) PROPOSED SHARE CONSOLIDATION;  
(B) PROPOSED OPEN OFFER ON THE BASIS OF  
ONE (1) OFFER SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE  
HELD ON THE RECORD DATE; AND  
(C) APPLICATION FOR WHITEWASH WAIVER**

### INTRODUCTION

Reference is made to the Announcement of the Company dated 8 August 2014 in relation to, among other matters, the Share Consolidation, the Open Offer and the Whitewash Waiver and the announcement of the Company dated 12 September 2014 in relation to further delay in despatch of this circular.

The purpose of this circular is to provide you with further details regarding the Share Consolidation, the Open Offer and the Whitewash Waiver, including, amongst others, details of (i) the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee of the Company and the Independent Shareholders in relation to the

\* For identification purposes only

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## LETTER FROM THE BOARD

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Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver; (iv) the Share Consolidation; and (v) a notice convening the EGM.

### **PROPOSED SHARE CONSOLIDATION**

The Board proposes that every five (5) Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company be consolidated into one (1) Consolidated Share of HK\$0.50 in the issued and unissued share capital of the Company. As at the Latest Practicable Date, there were 1,146,192,918 Existing Shares of HK\$0.10 each in issue which are fully paid or credited as fully paid. Assuming no further Shares will be issued or repurchased from the Latest Practicable Date up to the date of the EGM, there will be 229,238,583 Consolidated Shares of HK\$0.50 each in issue which are fully paid or credited as fully paid immediately following the Share Consolidation. The authorised share capital of the Company will become HK\$1,000,000,000.00 divided into 2,000,000,000 Consolidated Shares of HK\$0.50 each.

The Company has no outstanding share options, warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

### **Conditions of the Share Consolidation**

The implementation of the Share Consolidation is conditional upon:

- (i) the passing of the necessary ordinary resolutions by the Independent Shareholders at the EGM to approve the Share Consolidation and the Open Offer;
- (ii) the Listing Committee granting the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective; and
- (iii) compliance with the relevant procedures and requirements under Cayman Islands law (if applicable) and the Listing Rules to effect the Share Consolidation.

### **Listing application**

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective. All necessary arrangements will be made for the Consolidated Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited. The Share Consolidation will be conducted in accordance with the provisions in the articles of association of the Company.

It is proposed that following the Share Consolidation, the Consolidated Shares will continue to be traded in board lots of 4,000 Consolidated Shares. Based on the closing price of HK\$0.300 per Share on the Last Trading Day, the value of each board lot of the Consolidated Shares, assuming the Share Consolidation had already been effective, would be HK\$6,000.

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## LETTER FROM THE BOARD

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### Status of the Consolidated Shares

The Consolidated Shares will rank *pari passu* in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders. Fractional Consolidated Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company. In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares, the Company has agreed to procure an agent to arrange for matching service on a best effort basis regarding the sale and purchase of odd lots of the Consolidated Shares. Shareholders should note that matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Further details in respect of the parallel trading arrangements (including the odd lots matching services) will be set out in the circular to be despatched to the Shareholders. The Company will bear the costs relating to the matching of sale and purchase of odd lots of the Consolidated Shares.

### Reasons for the Share Consolidation

The proposed Share Consolidation will increase the nominal value of the Shares and it is expected that the Share Consolidation will lead to a corresponding upward adjustment in the trading price of the Consolidated Shares, and also reduce the total number of Shares currently in issue and as enlarged by the Open Offer upon Completion. As such, the transaction and handling costs of the Company in relation to the dealing in the Consolidated Shares and the Offer Shares are expected to be reduced, which will be beneficial to the Company. Moreover, as the market value of each board lot upon the Share Consolidation becoming effective will be higher than the market value of each existing board lot, the transaction cost as a proportion of the market value of each board lot will be lower. Accordingly, the Board (excluding members of the Independent Board Committee, being the independent non-executive Directors who will give their views after considering the advice of the Independent Financial Adviser) is of the view that the Share Consolidation is beneficial to the Company, the Shareholders and investors as a whole.

Other than the necessary professional expenses to be incurred by the Company in relation to the Share Consolidation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of Shareholders as a whole.

**Shareholders and potential investors should be aware of and take note that the Share Consolidation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed “Conditions of the Share Consolidation” above, and therefore may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

### Trading arrangements

Upon the Share Consolidation becoming effective, the trading arrangements proposed for dealings in Consolidated Shares are set out as follows:

- (i) with effect from 9:00 a.m. on Tuesday, 21 October 2014, the original counter for trading in Shares in board lots of 4,000 Existing Shares will close temporarily. A temporary counter for trading in Consolidated Shares in the form of existing blue share certificates in board

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## LETTER FROM THE BOARD

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lots of 800 Consolidated Shares will be established; every five Existing Shares in the form of existing blue share certificates will be deemed to represent one Consolidated Share. The existing blue share certificates for Shares can only be traded at this temporary counter;

- (ii) with effect from 9:00 a.m. on Tuesday, 4 November 2014, the original counter will re-open for trading in Consolidated Shares in board lots of 4,000 Consolidated Shares. Only new green share certificates for the Consolidated Shares can be traded at this counter;
- (iii) with effect from 9:00 a.m. on Tuesday, 4 November 2014 to 4:00 p.m. on Monday, 24 November 2014 (both dates inclusive), there will be parallel trading at the counters mentioned in (i) and (ii) above; and
- (iv) the temporary counter for trading in Consolidated Shares in the form of the existing blue share certificates in board lots of 800 Consolidated Shares will be removed after the close of trading on Monday, 24 November 2014. Thereafter, trading will only be in Consolidated Shares in the form of new green share certificates in board lots of 4,000 Consolidated Shares and the existing blue share certificates for Shares will cease to be acceptable for trading and settlement purposes.

Shareholders are recommended to consult their licensed securities dealers, bank managers, solicitors, professional accountants or other professional advisers, if they are in any doubt about the arrangements described above.

### **Odd lot arrangements and fractional Consolidated Shares**

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company will appoint an agent, China Galaxy International Securities (Hong Kong) Co., Limited, to stand in the market to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares during the period from Tuesday, 4 November to Monday, 24 November 2014 (both dates inclusive). Holders of odd lots of Consolidated Shares who wish to take advantage of this arrangement either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Mr. Choy Ho Yin of China Galaxy International Securities (Hong Kong) Co., Limited by phone at (852) 3698 6820 during this period. Holders of odd lots of Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares would be made on a best effort basis but would not be guaranteed. Any Shareholder who is in doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers.

Fractional entitlements of Consolidated Shares will be disregarded and not be issued to the Shareholders but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefits of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of Shares regardless of the number of share certificates held by such holder.

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## LETTER FROM THE BOARD

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### Exchange of share certificates

Subject to the Share Consolidation becoming effective, which is expected to be at 9:00 a.m. on Tuesday, 21 October 2014, Shareholders may, on or after Tuesday, 21 October 2014 until Wednesday, 26 November 2014 (both days inclusive) submit share certificates for existing Shares to the Registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, to exchange, at the expense of the Company, for certificates of the Consolidated Shares (on the basis of five existing Shares for one Consolidated Share). Thereafter, the share certificates for existing Shares will remain effective as documents of title but will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) per certificate issued or cancelled (whichever is higher) payable by the Shareholders to the Hong Kong branch share registrar of the Company.

The new certificates for the Consolidated Shares will be green in colour in order to distinguish them from the existing certificates for the Shares which are blue in colour.

### PROPOSED OPEN OFFER

The Board proposes to raise approximately HK\$114.6 million before expenses, by way of Open Offer of 229,238,583 new Consolidated Shares at the Subscription Price of HK\$0.500 per Consolidated Share on the basis of one (1) Offer Share for every one (1) Consolidated Share held on the Record Date and payable in full on acceptance. The aggregate nominal value of the Offer Shares is HK\$114.6 million.

### Issue statistics

Basis of the Open Offer:	One (1) Offer Share for every one (1) Consolidated Share held on the Record Date
Subscription Price:	HK\$0.500 per Consolidated Share
Number of Shares in issue as at the Latest Practicable Date:	1,146,192,918 Existing Shares (or 229,238,583 Consolidated Shares)
Number of Offer Shares:	229,238,583 Offer Shares (assuming no new Shares being issued and no Shares being repurchased on or before the Record Date)
	The aggregate nominal value of the Offer Shares is HK\$114.6 million
Number of Offer Shares underwritten by the Underwriter:	229,238,583 Offer Shares, being the total number of the Offer Shares. The Open Offer will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

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## LETTER FROM THE BOARD

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The 229,238,583 Offer Shares represent approximately (i) 100.00% of the issued share capital of the Company prior to Completion (taking into account the Share Consolidation) and (ii) 50.00% of the issued share capital of the Company as enlarged by the allotment and issuance of the Offer Shares upon Completion.

The Company has no outstanding share options, warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

### **Qualifying Shareholders**

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders.

To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date: (i) be registered on the registers of members of the Company; and (ii) not be the Prohibited Shareholders.

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:30 p.m. on Monday, 3 November 2014.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable.

### **Closure of register of members**

The register of members will be closed from 4 November 2014 to 7 November 2014 (both dates inclusive). No transfer of Shares will be registered during the book closure period.

### **Subscription Price**

The Subscription Price is HK\$0.500 per Offer Share, payable in full on application. The net Subscription Price per Offer Share (after deducting the relevant expenses) will be approximately HK\$0.480. The Subscription Price represents:

- (i) a discount of approximately 66.67% to the theoretical closing price of HK\$1.500 per Consolidated Share based on the closing price of HK\$0.300 per Existing Share as quoted on Stock Exchange on the Last Trading Day and adjusted for the effect of Share Consolidation;
- (ii) a discount of approximately 50.00% to the theoretical ex-entitlement price of approximately HK\$1.00 per Consolidated Share calculated based on the closing price of HK\$0.300 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation;

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## LETTER FROM THE BOARD

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- (iii) a discount of approximately 65.64% to the average of the closing prices of HK\$1.455 per Consolidated Share based on the average closing prices of HK\$0.291 per Existing Share for the last five consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Share Consolidation;
- (iv) a discount of approximately 65.03% to the average of the closing prices of HK\$1.430 per Consolidated Share based on the average of the closing prices of HK\$0.286 per Existing Share for the last ten consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Share Consolidation;
- (v) a discount of approximately 75.49% to the audited net asset value per Consolidated Share attributable to equity holders of the Company of approximately HK\$2.04 based on the latest audited consolidated net asset value of the Group as at 31 December 2013 and the number of Shares in issue as at the Latest Practicable Date;
- (vi) a discount of approximately 75.12% to the unaudited net asset value per Consolidated Share attributable to equity holders of the Company of approximately HK\$2.01 based on the latest unaudited consolidated net asset value of the Group as at 30 June 2014 and the number of Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 40.48% to the closing price of HK\$0.84 per Consolidated Share based on the closing price of HK\$0.168 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market price of the Shares, the financial conditions of the Group, the uncertain market sentiment in the equity market and the absence of excess application arrangement to the Qualifying Shareholders. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Open Offer. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (excluding Mr. Xu who is required to abstain from voting on the Board resolutions approving the Open Offer, the Underwriting Agreement, the Share Consolidation and the Whitewash Waiver and the independent non-executive Directors who have given their views in the Letter of the Independent Board Committee after taking into consideration of the advice of the Independent Financial Adviser) consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions of the Open Offer**

The Open Offer is conditional upon:

- (1) the passing by the Independent Shareholders at the relevant EGM of ordinary resolutions to approve the Share Consolidation, the Underwriting Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Offer Shares, the lack of excess application arrangement in the Open Offer and the Whitewash Waiver by no later than the date on which the Prospectus for the Open Offer is despatched;

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## LETTER FROM THE BOARD

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- (2) the Share Consolidation having become effective;
- (3) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the date on which the Prospectus is despatched;
- (4) the posting of the Prospectus Documents to the Qualifying Shareholders of the Company and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders as defined in the Underwriting Agreement, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus is despatched;
- (5) the Executive granting the Whitewash Waiver to the Underwriter and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (6) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the date on which the Prospectus is despatched;
- (7) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement; and
- (8) compliance with and performance of all the undertakings and obligations of the Underwriter under the terms of the Underwriting Agreement.

The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole by the Company by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

The Company shall use all reasonable endeavours to procure the fulfillment of all the conditions precedent (save for condition (8)) by the Latest Time for Termination or such other date as the Company and the Underwriter may agree and in particular shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may be necessary in connection with the listing of the Offer Shares or to give effect to the Open Offer and the arrangements contemplated in the Underwriting Agreement.

### **Status of the Offer Shares**

The Offer Shares (when allotted, issued and fully paid) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

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## LETTER FROM THE BOARD

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### **Rights of the Overseas Shareholders**

If, at the close of business on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong.

As at the Latest Practicable Date, based on the register of members of the Company, there was one Shareholder whose registered address was in the PRC. Based on the legal advice provided by the PRC legal adviser, the Directors are of the view that it is expedient to extend the Open Offer to all the Overseas Shareholders in the PRC as there are no legal restrictions prohibiting the making of Open Offer in the PRC's jurisdiction and no local legal or regulatory compliance is required to be made in the PRC's jurisdiction. Accordingly, such Overseas Shareholder together with the Shareholders with registered addresses in Hong Kong are the Qualifying Shareholders. The Company will continue to ascertain whether there is any other Overseas Shareholder on the Record Date and will, if applicable, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Open Offer to such Overseas Shareholders on the Record Date and make relevant disclosures in the Prospectus. Further information in this connection will be set out in the Prospectus Documents containing, among other things, details of the Open Offer, to be despatched to the Qualifying Shareholders on the Prospectus Posting Date.

The Company will send copies of the Prospectus and if applicable, the Overseas Letter, but not the application form, to the Prohibited Shareholders for their information only (subject to approval by the Independent Shareholders at EGM). Any Overseas Shareholders will be entitled to vote on all resolutions at the EGM provided that such Overseas Shareholder is an Independent Shareholder.

### **No application for excess Open Offer Shares**

There is no arrangement for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements. Taking into account that:

- (i) the terms of the Open Offer are structured with an intention to encourage the Qualifying Shareholders, including the minority Shareholders to take up their respective assured entitlement of the Offer Shares as the Subscription Price is set at a discount to the prevailing market price of the Shares to enhance the attractiveness and provides reasonable incentive for the Qualifying Shareholders to participate in the Open Offer;
- (ii) the Open Offer are offered equally to all Qualifying Shareholders with an equal opportunity to maintain their pro rata shareholding interests in the Company, the Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer;

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## LETTER FROM THE BOARD

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- (iii) the related administrative work and costs including printing of application forms, time cost of the Company's employees and charges from the registrar and the receiving bank would be lowered by an estimated amount of over HK\$350,000 in the absence of excess applications, the Directors are of the view that not to incur additional administrative costs for the excess application arrangement are in the interests of the Company and the Shareholders as a whole;
- (iv) the Underwriter does not charge any commission for the Offer Shares to be taken up by it; and
- (v) the absence of the excess application arrangement and the underwriting arrangement under the Open Offer are subject to approval by the Independent Shareholders at the EGM, the Directors consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole not to offer any excess application to the Shareholders.

Any Offer Shares not taken up by the Qualifying Shareholders, and the Offer Shares to which the Prohibited Shareholders would otherwise have been entitled to under the Open Offer, will not be available for subscription by other Qualifying Shareholders by way of excess application and will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

### **Share certificates of the Offer Shares**

Subject to the fulfillment of the conditions of the Open Offer, share certificates for all Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Offer Shares on or before Thursday, 4 December 2014 by ordinary post at their own risk.

### **Application for listing**

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Offer Shares. The Offer Shares shall have the board lot size of 4,000 Consolidated Shares per board lot.

Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty (if any) in Hong Kong and any other applicable fees and charges in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Offer Shares may be settled through CCASS. You should seek advice of your stock broker or other professional adviser for details of those settlement arrangements and how such arrangements will affect your rights and interests.

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## LETTER FROM THE BOARD

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### REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Company is an investment holding company. The Group is principally engaged in the production and sale of plastic woven bags barrels, sale of coal and provision of low-rank coal upgrading services in the PRC.

As disclosed in the annual report of the Company for the year ended 31 December 2013, the Group has been operating in losses for the past two years. The Group's financial and liquidity position has not been satisfactory with net current liabilities of approximately of HK\$26.5 million and HK\$27.1 million as at 31 December 2013 and 2012 respectively.

As disclosed in the interim report of the Company for the six months ended 30 June 2014, the Group has been operating in losses for the six months ended 30 June 2014. The Group's financial and liquidity position has not been satisfactory with net current liabilities of approximately HK\$20.6 million as at 30 June 2014.

In view of the recent financial performance and positions of the Group, the Board acknowledges that it will be difficult for the Group to obtain debt financing if any, without paying an above market average interest rate. In addition, the Board considers that it is prudent to finance the Group's business growth in the form of equity financing which will not increase the costs and interest burden to the Group. The Board is of the view that the Open Offer will enable the Group to strengthen its capital base, to ease the Group's short term financial stress and to enhance its financial position and maximize the Shareholders' benefits in the long run. In addition, it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company to participate in the future development of the Company should they wish to do so. However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted. Furthermore, compared to open offer, rights issue will involve extra administrative work and cost for the trading arrangements in relation to the nil-paid rights, the costs associated with a rights issue include printing costs of allotment letters, excess application forms, any splitting costs for the Shareholders who take up only their rights issues entitlement partially, the fee payable for nil-paid rights trading arrangement, additional printing costs of share certificates for new shareholders who will purchase the nil-paid rights on the market, additional professional fees for preparing and reviewing the provisional allotment letters and the excess application forms and liaison with the Registrar. The total additional costs are estimated to be over HK\$350,000. The Board considers raising funds by way of the Open Offer is more cost effective and involved lesser administrative work as compared to a right issue.

The Directors (excluding Mr. Xu, who is required to abstain from voting on Board resolution approving the Share Consolidation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver and the independent non-executive Directors who will give their views after taking into account of the advice of the Independent Financial Adviser) consider that the Share Consolidation and the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Upon completion of the Open Offer, the Company will receive gross proceeds of approximately HK\$114.6 million. The net proceeds to be raised from the Open Offer, which are estimated to be approximately HK\$110.0 million, are intended to be applied as follows:

- (i) approximately HK\$65.0 million will be utilised for the capital expenditures in the business development of the provision of low-rank coal upgrading services.
- (ii) approximately HK\$25.0 million will be utilised for the repayment of the Group's outstanding borrowings owing to Shenzhen Liangyun Investment Company Limited# (深圳市良運投資有限公司) since 19 August 2013, an independent third party of the Company, which is a PRC trading company independent to the Company, with the loan amount of HK\$28,897,698, due date on 19 August 2015 and the loan interest rate at 5%; and
- (iii) approximately HK\$20.0 million will be utilised for general working capital of the Group.

The expected capital expenditures of HK\$65 million comprise: (i) building construction contracts entered into with independent contractors in the total amount of approximately HK\$47 million for the construction of the superstructure of the coal upgrading plant in the Xilinhaote City, Inner Mongolia, the PRC and general capital expenditures for the coal upgrading business segment; (ii) raw materials procurement in the amount of approximately HK\$11 million; and (iii) the land premium to perfect the title of approximately HK\$7 million. This capital commitment of HK\$65 million does not relate to the cost of the construction of production facilities under the Project Management Contract which is yet to be effective (as explained in the section headed "Business Review of the Group").

For the outstanding borrowing owing to Shenzhen Liangyun Investment Company Limited, such loan proceeds were utilised in the past development of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC, as the Group was unable to secure any loan facilities from banks or other financial institutions at that time.

As at 30 June 2014, the Group had total borrowings due to independent third parties of approximately HK\$99.96 million. Among these creditors to the Group, Shenzhen Liangyun Investment Company Limited had indicated to the Group its unwillingness to extend the repayment date upon due on 19 August 2015, accordingly, the management intends to apply HK\$25 million from the proceeds of the Open Offer to repay this loan.

### **BUSINESS REVIEW OF THE GROUP**

As stated in the annual reports of the Company for the financial years ended 31 December 2012 and 2013 respectively, during the financial years 2012 and 2013, Changchun Yicheng Packaging Company Limited ("Changchun Yicheng") continued to be the Group's major source of revenue and profit contributor.

# For identification purpose only

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## LETTER FROM THE BOARD

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At the beginning of 2013, the Company was informed by the relevant authorities in Inner Mongolia of the award of a production safety license and a coal production license, with an effective period of 2 years and 14 years, respectively, for our underground coal mine. However, due to sluggish coal price in the second half of 2013, the Group decided to suspend its operation, resulting in minimal contribution to the Group's business income in the second half of 2013. After taking effective measures, our underground coal mine has resumed operation since February 2014 and is expected to maintain a stable production in 2014.

During financial year 2012, the Group entered into the business of provision of low-rank coal upgrading services in the PRC via an indirect wholly owned subsidiary, Beijing Guochuan New Energy Development Co., Ltd ("Beijing Guochuan"). After more than a year of evolvement, Changchun Guochuan Coal Upgrading Plant ("Changchun Guochuan"), a non wholly owned subsidiary of Beijing Guochuan, has been in commercial operation and recorded profit in 2013. Changchun Guochuan has built a solid foundation for the Group's coal upgrading business by accumulating operating data, training talents, improving production process and reducing the overall production cost. After testing various low-rank coals from different coal mines in Inner Mongolia, Changchun Guochuan is able to increase the net calorific value on an as received basis by 60% on average (from an average of 3,000 kcal/kg to 5,000 kcal/kg). With the successful experience in Changchun Guochuan, the Board of Directors decided to develop the coal upgrading business in low-rank coal rich regions, especially in the eastern part of Mongolia.

Currently, the Group is building a coal upgrading structure in Xilinhaote City, Inner Mongolia, the PRC. In November 2013, Beijing Guochuan and Xilinhaote City Guochuan Energy Technology Development Co., Ltd, ("Xilinhaote Guochuan", together with Beijing Guochuan the "Principals"), both indirect wholly-owned subsidiaries of the Company entered into the Project Management Contract for the construction of the production facilities in Xilinhaote City, the PRC with Dalian Shipbuilding Industry Equipment Manufacturing Company Limited ("Dalian Shipbuilding"). The tentative total project costs payable by the Principals is RMB458.85 million (equivalent to approximately HK\$587.33 million). The actual project costs payable by the Principals is subject to adjustments including the adjustments for the increase in raw material and component costs and the amounts of the compensation fees, the inducement fees and the management fees. The actual project costs shall not exceed RMB560 million (equivalent to approximately HK\$716.80 million).

As stated in the interim results of the Company for the six months ended 30 June 2014, for the six months ended 30 June 2014:

### *Manufacture and sale of plastic woven bags and barrel*

The turnover was approximately HK\$76,020,000, representing a decrease of approximately 34.04% as compared to the same period last year. The decrease was mainly attributable to the decrease of purchase order from one of the Group's top five customers due to its reduction of production capacity to the best knowledge of the management. The gross profit for the Period was decreased by 51.26%, from approximately HK\$33,176,000 to approximately HK\$16,169,000. Further, increase in raw materials costs and staff costs during the Period also resulted in a drop in gross profit margin to approximately 21.27% for the Period from approximately 28.78% for the same period last year.

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## LETTER FROM THE BOARD

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### *Trading and distribution of coal*

Due to the effective costs control measures, the Company's underground coal mine has resumed operation since February 2014. As at 30 June 2014, approximately 774,272 tons of coal was produced and approximately 437,708 tons of coal was sold. The Company expects that the production will continue to be stable in the remaining months and is expected to achieve the annual production capacity of 1,200,000 tons coal in 2014.

### *Provision of low-rank coal upgrading services*

The turnover for the Period was approximately HK\$3,959,000, representing a decrease of approximately 78.07% as compared to the same period of last year. The decrease was mainly attributable to the decrease of service order from one of the Group's top five customers due to its reduction of production capacity to the best knowledge of the management. The Group recorded the gross loss amounted to approximately HK\$1,433,000 as compared to the gross profit of approximately HK\$6,642,000 to the same period last year due to the drop in turnover as a result of customer's reduction of production capacity. Both turnover and cost of sales decreased while certain fixed costs such as depreciation, labour costs and factory rental remained the same. As a result, the gross profit margin dropped significantly.

Pursuant to the Project Management Contract, the latest date to fulfill the conditions as set out in this contract is expired. The Company is currently in negotiation (the "Negotiation") with Dalian Shipbuilding to extend certain dates set out in the Project Management Contract including but not limited to (i) the latest date for completion of the registration of the charge/pledge of relevant assets for Dalian Shipbuilding's advances for the construction of production facilities; (ii) the completion date of the Project Management Contract; and (iii) the latest date of fulfillment of the conditions precedent of the Project Management Contract. As at the Latest Practicable Date, there was no agreement reached between the parties in the Project Management Contract, accordingly, the Project Management Contract may or may not proceed. The Company will comply with the requirements of the Listing Rules for any progress or developments of the Project Management Contract.

On 24 March 2014, Beijing Guochuan as borrower (北京國傳新能源開發有限公司), an indirect wholly-owned subsidiary of the Company which was incorporated in the PRC, entered into a loan agreement with Mr. Xu Bin, as lender, for an unsecured and interest-free loan of RMB20,000,000 (approximately HK\$25,400,000) for use by Beijing Guochuan as general working capital. The loan is repayable on 31 October 2015. On 27 March 2014, the loan has been fully received. The loan facility is unsecured and non-interest bearing.

## **FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

China is the largest coal producing as well as consuming country in the world. Although its consumption among the types of energies consumed in China has gone down in proportion, it still plays a leading role representing 2/3 of the world's energy consumption. According to estimate made by China Energy Research Society\* (中國能源研究會) which is an independent research body established in 1981 by PRC industry practitioners in the China Energy sector, coal is expected to still account for nearly 50% of China's energy consumption by the end of 2050. China Energy Research Society is part of the China Association for Science and Technology\* (中國科學技術協會), which is one of the largest national non-governmental organisation of scientific and technological workers in China.

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## LETTER FROM THE BOARD

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The main stream solution to air pollution is the development of alternative energies, such as solar and wind power. However, considering their high production costs and relatively immature technologies, the Board is of the view that these alternative energies are still too early to massively replace coal energy. On the other hand, with the concerns on current energy consumption mix and national energy safety, the Board believes that Clean Coal Technology (the “CCT”) is a practical alternative to curb pollution issues in China, and coal upgrading technology is one of the critical aspects in the CCT. Currently, coal upgrading technology can be operated in the form of project operation and energy management contracts, applying in the area of coal upgrading & integrated utilization, coal-base clean fuels, highly efficient coal-fired power generation, coal combustion & industrial energy conservation. For the Group’s coal upgrading business, the Group has been granted the rights to use relevant coal upgrading technologies through the entering into of the License Agreement, such technologies has been applied by the Group’s coal upgrading plant in Changchun under Changchun Guochuan. Considering the increasing awareness of the CCT, the Directors believe that there are good potential for the Group to further develop the coal upgrading business in the low-rank coal rich area, Inner Mongolia, the PRC. Upon the commencement of operations of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC, it is expected that it would contribute significant revenue to the Group. Reference is also made to the section headed “Litigation” under Appendix IV – General Information, where the Group is involved in a litigation regarding the Licensed Patents under the License Agreement. However, the Group can continue to use the Licensed Patents which have been upheld by the Patent Reexamination Board of the SIPO in its coal upgrading business, and the Group is able to apply other technology or identify other suitable technology for its coal upgrading production, the Directors are of the view that the patent infringement proceedings will not have any material effect on the financial or business position of the Group as a whole.

During the second session of the twelfth Chinese People’s Political Consultative Conference and National People’s Congress held in Beijing in March 2014, there are many representatives discussing how to use coal in highly efficient and clean way. Some of them has pointed out the current technology is mature enough to discharge less pollutant during the combustion process, compared with the current emission standards for thermal power plants. It was also discussed that in order to promote the development of clean coal technology, the relevant government authorities should formulate industry standards, establish national project funds and enhance existing supporting policies. However as at the Latest Practicable Date, no definitive industry standard or supporting policy has been announced by the relevant government authorities according to the best knowledge of the Company. In light of the PRC government’s stance of this industry, the Directors are of the view that standardisation of the coal upgrade industry will elevate the general acceptance of upgraded coal products of coal consumers, and future supporting policies may further improve the operating environment of this business segment.

In view of decreasing purchase order from its customer, Changchun Yicheng, as one of the major revenue streams to the Group, will continue to exercise stringent control in the manufacturing process and manpower to save costs. The Board considers the performance of this business segment would not be promising. In the meantime, Changchun Yicheng will continue to seek more business opportunities and the Board will consider necessary and appropriate plans and strategies in order to improve its performance.

### UNDERWRITING ARRANGEMENT

#### Underwriting Agreement

Date: 29 July 2014

Underwriter: Hong Kong Hang Kei

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## LETTER FROM THE BOARD

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Hong Kong Hang Kei is a limited liability company incorporated in the British Virgin Islands which is wholly owned by Mr. Xu, an executive Director and the Co-chairman of the Company. As at the Latest Practicable Date, Hong Kong Hang Kei is still wholly owned by Mr. Xu. As at the date of the Underwriting Agreement and the Latest Practicable Date respectively, Hong Kong Hang Kei does not own or control any Shares or Relevant Securities of the Company.

As at the Latest Practicable Date, Mr. Xu holds 121,828,147 Existing Shares (or 24,365,629 Consolidated Shares) as at the Latest Practicable Date, representing approximately 10.63% of the issued share capital of the Company.

Save as disclosed above, Mr. Xu does not hold any other Shares or Relevant Securities of the Company as at the Latest Practicable Date.

Number of Offer Shares  
underwritten:

Pursuant to the Underwriting Agreement, Hong Kong Hang Kei as the underwriter has conditionally agreed to underwrite the Offer Shares of 229,238,583 which have not been taken up by the Shareholders. Accordingly, the Open Offer is fully underwritten.

Commission:

No underwriting commission will be payable by the Company to the Underwriter under the Underwriting Agreement.

### TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination (provided that for the purposes if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains in force in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains in force in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the sole and absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/ or after the date hereof) of a political, military, financial, economic or other nature

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## LETTER FROM THE BOARD

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(whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer, or
- (7) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the reasonable opinion of any of the Underwriter, a material omission in the context of the Open Offer; or
- (8) any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise,

the Underwriter shall be at its sole and absolute discretion entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

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## LETTER FROM THE BOARD

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The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

The Underwriter has entered into a loan facility in the sum of up to HK\$60 million granted by China Galaxy International Finance (Hong Kong) Co., Limited (“CGIF”), and such facility is secured by among others, the 121,828,147 Existing Shares currently held by Mr. Xu and the Shares to be acquired through the Open Offer (together the “Share Charge”) and a guarantee provided by Mr. Xu. As such, CGIF can choose to enforce the share charge and/or the guarantee in case of enforcement in the event of default of such facility, and the rights and benefits pertaining to such enforced Shares will be transferred to CGIF. It is not the intention of the Underwriter that the payment of interest to be accrued on, the repayment of or the security given relating to the such loan facility will depend to any significant extent on the business of the Company. Save as the aforementioned, there was no agreement, arrangement undertaking or understanding that the Share Charge would be transferred, charged or pledged to any other persons. The address of CGIF is at 3501-07, 35/F, Cosco Tower, 183 Queen’s Road Central, Sheung Wan, Hong Kong.

As at the Latest Practicable Date, the Board has received information from Mr. Mak Shiu Chung, Godfrey, Mr. Xu and Mr. Tsang Wai Sum, being Directors of the Company of their intention not to take up their assured entitlements under the Open Offer. Mr. Xu would instead take up his assured entitlement under the Open Offer through his underwriting obligation pursuant to the Underwriting Agreement. Save as disclosed above, there are no other Directors that hold or control or direct any Shares or Relevant Securities of the Company as at the Latest Practicable Date. Mr. Xu and Mr. Mak Shiu Chung, Godfrey shall abstain from voting in favour at the EGM. Mr. Tsang Wai Sum has indicated that he will vote in favour at the EGM.

### **WARNING OF THE RISKS OF DEALING IN THE SHARES**

**The proposed Open Offer and Share Consolidation are inter-conditional.**

**Shareholders and potential investors should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Open Offer may or may not proceed.**

**Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

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## LETTER FROM THE BOARD

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### EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Open Offer is set out below (after taking into account of the Share Consolidation) (after taking into account of the Share Consolidation and assuming no new Shares being issued and no Shares being repurchased by the Company on or before the Record Date):

	As at the Latest Practicable Date		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up his/her/its entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders take up his/her/its entitlements under the Open Offer)	
	<i>No. of Consolidated Shares</i>	<i>Approx. percentage</i>	<i>No. of Consolidated Shares</i>	<i>Approx. percentage</i>	<i>No. of Consolidated Shares</i>	<i>Approx. percentage</i>
Lucky Team International Limited ( <i>Note 1</i> )	28,930,203	12.62%	57,860,406	12.62%	28,930,203	6.31%
Mr. Xu, the Underwriter and parties acting in concert with any of them	24,365,629	10.63%	48,731,258	10.63%	253,604,212	55.31%
Mr. Tsang Wai Sum ( <i>Note 2</i> )	95,551	0.04%	191,102	0.04%	95,551	0.02%
<b>Public Shareholders</b>	<u>175,847,200</u>	<u>76.71%</u>	<u>351,694,400</u>	<u>76.71%</u>	<u>175,847,200</u>	<u>38.36%</u>
<b>Total</b>	<b><u>229,238,583</u></b>	<b><u>100.00%</u></b>	<b><u>458,477,166</u></b>	<b><u>100.00%</u></b>	<b><u>458,477,166</u></b>	<b><u>100.00%</u></b>

*Note:* 1. Lucky Team International Limited 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. Mr. Tsang Wai Sum is an independent non-executive Director of the Company.

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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the past 12 months immediately prior to the date of this circular.

### IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, Mr. Xu, the Underwriter and parties acting in concert with any one of them are beneficially interested in 121,828,147 Existing Shares (or 24,365,629 Consolidated Shares), representing approximately 10.63% of the entire issued share capital of the Company. Mr. Xu directly holds 121,828,147 Existing Shares (or 24,365,629 Consolidated Shares) and the Underwriter does not hold any Shares.

In the event that, upon Completion (assuming no new Shares being issued and no Shares being repurchased by the Company on or before the Record Date), no Qualifying Shareholders will take up any Offer Shares, the Underwriter will be required to subscribe for and take up all the underwritten shares, which will result in the total shareholding interests of Mr. Xu, the Underwriter and parties acting in concert with any one of them in the Company increasing from 121,828,147 Existing Shares (or 24,365,629 Consolidated Shares) to 253,604,212 Consolidated Shares, representing approximately 55.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares. In that case, under Rule 26.1 of the Takeovers Code, the Underwriter will be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it as a result of the underwriting obligation in accordance with the terms of Underwriting Agreement, unless the Whitewash Waiver is obtained from the Executive.

Save for the Underwriting Agreement, Mr. Xu, the Underwriter and the parties acting in concert with any of them have not acquired any voting rights of the Company and have not dealt in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares of the Company in the six months prior to the date of the Announcement and up to and including the Latest Practicable Date.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Whitewash Waiver, if granted, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which the Underwriter, its beneficial owners and the parties acting in concert with any one of them will abstain from voting on the relevant resolution(s). It is a condition precedent to the completion of the Open Offer that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not proceed.

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## LETTER FROM THE BOARD

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The Directors (excluding Mr. Xu who is required to abstain from voting on the Board resolutions approving the Open Offer, the Underwriting Agreement, the Share Consolidation and the Whitewash Waiver and the independent non-executive Directors have given their views in the Letter of the Independent Board Committee after taking into consideration of the advice of the Independent Financial Adviser) believe that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Underwriter and parties acting in concert with it in the Company may exceed 50% upon Completion. The Underwriter and parties acting in concert with it may further increase their shareholdings in the Company after Completion without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer. However, any changes in the composition of the group comprising Mr. Xu, the Underwriter and persons acting in concert with any of them that effectively result in a new group being formed or the balance of the group being changed significantly, may trigger an obligation to make a general offer under Rule 26.1 of the Takeovers Code.**

### INTENTION OF THE UNDERWRITER

If the Underwriter becomes the controlling Shareholder as a result of the performance of the underwriting obligations under the Underwriting Agreement, Mr. Xu, the Underwriter and the parties acting in concert with any of them considers and confirms that:

- (i) the Group will continue with its existing businesses following the completion of the Open Offer;
- (ii) the Open Offer is in the interests of the Group in the long run as the Group requires funding for its capital expenditure, repayment of borrowings and general working capital; and
- (iii) it has no intention to introduce any major changes to the existing businesses of the Group, including the continued employment of the Group's employees and has no intention to re-deploy the fixed assets of the Group other than in its ordinary course of business.

The Board considers that the Underwriter's intentions in respect of the Group and its employees will maintain the continuity of the business of the Group and are therefore in the interests of the Company and its shareholders as a whole.

### LISTING RULES IMPLICATIONS

As the Open Offer will increase the issued share capital of the Company by more than 50% within the 12-month period immediately preceding the Latest Practicable Date, the Open Offer is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of the Rule 7.24(5)(a) of the Listing Rules.

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## LETTER FROM THE BOARD

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Pursuant to Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available, approval shall be obtained from the Independent Shareholders by way of poll at the EGM in respect of the absence of such arrangement.

Mr. Xu, the Underwriter and the parties acting in concert with any of them and those who are involved in or interested in the Share Consolidation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver who are required by the Listing Rules and/or the Takeovers Code shall abstain from voting at the EGM on respective resolutions for approving the Share Consolidation (given the Share Consolidation is inter-conditional with the Open Offer), the Open Offer, the Whitewash Waiver and the absence of excess application arrangement.

In addition, as at the Latest Practicable Date, since there is no controlling Shareholder, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates (other than Mr. Xu) are required to abstain from voting in favour at the EGM in respect of the resolution to approve the Open Offer. In addition to Mr. Xu and his associates, Mr. Mak Shiu Chung, Godfrey and his associates shall also abstain from voting in favour of the resolution to approve the Open Offer. Apart from Mr. Xu, Mr. Mak Shiu Chung, Godfrey and their respective associates, there were no Directors (excluding independent non-executive Directors), chief executive officer of the Company and their respective associates were interested in any Shares as at the Latest Practicable Date.

The entering into of the Underwriting Agreement between the Company and the Underwriter, which is wholly and beneficially owned by Mr. Xu, is a connected transaction under the Listing Rules. Pursuant to Rule 14A.92(2)(b) of the Listing Rules, provided that Rule 7.26A(2) of the Listing Rules has been complied with, the Underwriting Agreement will be exempted from the reporting, announcement and independent shareholders' approval requirements.

### **THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee, which comprises Mr. Kwok Chi Shing, Mr. Tsang Wai Sum and Mr. Huang Shao Ru, being all independent non-executive Directors, has been established in compliance with Rule 2.8 of the Takeovers Code, to advise the Independent Shareholders as to whether the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and how to vote on the resolutions at EGM in relation to the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver and whether they are in the interests of the Independent Shareholders, taking into account the recommendations of the Independent Financial Adviser.

### **APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

Bridge Partners has been appointed as the Independent Financial Adviser to the Company to advise the Independent Board Committee and the Independent Shareholders on the terms of the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver. The appointment of Bridge Partners as the Independent Financial Adviser has been approved by the Independent Board Committee.

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## LETTER FROM THE BOARD

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### PROFIT WARNING

The Company would like to draw the attention of Shareholders to the profit warning announcement of the Company dated 4 August 2014 in relation to the expected loss attributable to the owners of the Company for the six months ended 30 June 2014 (the “Profit Warning”) and the Announcement. Pursuant to the note to Rule 10.1 of the Takeovers Code, the procedure required by Rule 10.3(d) of the Takeovers Code in respect of the Profit Warning will be reported on by financial advisers and auditors, and under Rule 10.4 of the Takeovers Code, their reports must be included in the next document sent to the Shareholders. The interim results for the six months ended 30 June 2014 of the Company (the “Interim Results”) have been published on 29 August 2014 and has been contained in this circular to be despatched to the Shareholders. As a result, the Interim Results would fall under Rule 10.9 of the Takeovers Code and the reporting on requirement of the Profit Warning will not be required. For details, please refer to Appendix I – Financial Information of this circular.

### EGM

A notice convening the EGM at Suite No. 3 31st Floor, Sino Plaza 255-257 Gloucester Road, Hong Kong on 20 October 2014 at 3:00 p.m. is set out on pages 157 to 159 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company’s share registrars, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

In accordance with the Takeovers Code and the Listing Rules, the Underwriter and the parties acting in concert with it and their respective associates (as defined under the Listing Rules) and those who are involved in and/or interested in the Open Offer, the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the relevant resolutions in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

Resolutions will be proposed as ordinary resolutions to consider and, if thought fit, to approve (i) the Open Offer (including the absence of excess application arrangement under the Open Offer); (ii) the Underwriting Agreement; (iii) the Whitewash Waiver; and (iv) the Share Consolidation. An announcement will be made by the Company after the EGM on the results of the EGM.

### RECOMMENDATIONS

The Directors (including independent non-executive directors after taking into account the advice of the Independent Financial Adviser) believe that the terms of the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Directors also believe that the Share Consolidation is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) recommend the Independent

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## LETTER FROM THE BOARD

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Shareholders to vote in favour of all resolutions to be proposed at the EGM. Mr. Xu, who has a material interest in the Open Offer, the Underwriting Agreement and the Whitewash Waiver has abstained from voting on the Board resolutions regarding the same.

Shareholders are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer on page 36 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 37 to 63 of this circular, considers that the terms of the Open Offer (including the absence of excess application arrangement under the Open Offer) are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver at the EGM.

### FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board  
**DeTeam Company Limited**  
**Mak Shiu Chung, Godfrey**  
*Co-Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver.*

### **DeTeam Company Limited**

**弘海有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock Code: 65)*

30 September 2014

*To the Independent Shareholders*

Dear Sir or Madam,

**(A) PROPOSED SHARE CONSOLIDATION;  
(B) PROPOSED OPEN OFFER ON THE BASIS OF  
ONE (1) OFFER SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE  
HELD ON THE RECORD DATE; AND  
(C) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 30 September 2014 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned. Bridge Partners has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 37 to 63 of the Circular, we are of the opinion that the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, are in the interests of the Independent Shareholders and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Kwok Chi Shing**  
*Independent  
non-executive Director*

**Mr. Tsang Wai Sum**  
*Independent  
non-executive Director*

**Mr. Huang Shao Ru**  
*Independent  
non-executive Director*

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in connection with the Share Consolidation, the Open Offer (including the absence of excess application arrangement), the Underwriting Agreement and the Whitewash Waiver which has been prepared for the purpose of incorporation in this Circular.*



### **BRIDGE PARTNERS CAPITAL LIMITED**

Room 3303, 33/F, West Tower, Shun Tak Centre,  
200 Connaught Road Central, Hong Kong

30 September 2014

*To the Independent Board Committee  
and the Independent Shareholders  
of DeTeam Company Limited*

Dear Sir or Madam,

**(A) PROPOSED SHARE CONSOLIDATION;  
(B) PROPOSED OPEN OFFER ON THE BASIS OF  
ONE (1) OFFER SHARE FOR EVERY ONE (1) CONSOLIDATED  
SHARE HELD ON THE RECORD DATE;  
AND  
(C) APPLICATION FOR WHITEWASH WAIVER**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Consolidation, the Open Offer (including the absence of excess arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver, details of which were set out in the section headed “Letter from the Board” (the “**Board Letter**”) in a circular dated 30 September 2014 issued by the Company (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings given to them in the Circular unless the context otherwise requires.

On 8 August 2014, the Board announced in the Announcement that the Company proposed a Share Consolidation that every five (5) Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company be consolidated into one (1) Consolidated Share of HK\$0.50 in the issued and unissued share capital of the Company. As at the Latest Practicable Date, there were 1,146,192,918 Existing Shares of HK\$0.10 each in issue which are fully paid or credited as fully paid. Assuming no further Shares will be issued or repurchased from the Latest Practicable Date up to the date of the EGM, there will be 229,238,583 Consolidated Shares of HK\$0.50 each in issue which are fully paid or credited as fully paid immediately following the Share Consolidation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, subject to the Share Consolidation becoming effective, the Company proposed to raise approximately HK\$114.6 million (before expenses) by way of the Open Offer of 229,238,583 Offer Shares to Qualifying Shareholders at the Subscription Price of HK\$0.50 per Offer Share on the basis of one (1) Offer Share for every one (1) Consolidated Share held on the Record Date and payable in full on acceptance. The Share Consolidation is inter-conditional with the Open Offer.

The Open Offer is fully underwritten by the Underwriter and there is no application for excess Offer Shares, i.e. the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. The absence of excess application arrangement for the disposal of the Offer Shares not taken up under the Open Offer shall be approved by the Independent Shareholders at the EGM by way of poll for the purpose of compliance with Rule 7.26(A)(2) of the Listing Rules.

The Underwriter is a company incorporated in the British Virgin Islands with limited liability, which is wholly and beneficially owned by Mr. Xu. As at the Latest Practicable Date, Mr. Xu, the Underwriter and parties acting in concert with any one of them are beneficially interested in 121,828,147 Existing Shares (or 24,365,629 Consolidated Shares), representing approximately 10.63% of the entire issued share capital of the Company as at the Latest Practicable Date. Mr. Xu directly holds 121,828,147 Existing Shares (or 24,365,629 Consolidated Shares) and the Underwriter does not hold any Shares. Assuming that no Shareholder will take up any Offer Share, and the Underwriter has taken up all the underwritten shares, the aggregate shareholding of the Underwriter, Mr. Xu and parties acting in concert with any of them in the Company upon the completion of the Open Offer would increase from approximately 10.63% to 55.31% of the enlarged issued share capital of the Company. The Underwriter will be obliged to make a mandatory general offer to the Shareholders for all issues Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it as a result of the underwriting obligation under Rule 26.1 of the Takeovers Code unless the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders of the Company.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll. The granting by the Executive of the Whitewash Waiver and the approval of the Independent Shareholders at the EGM in accordance with the Takeovers Code are part of the condition(s) precedent to completion of the Open Offer and the Underwriting Agreement which are not capable of being waived. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved at the EGM, the Share Consolidation and the Open Offer will not proceed.

The Independent Board Committee, which comprises all of the Company's independent non-executive Directors, namely, Mr. Kwok Chi Shing, Mr. Tsang Wai Sum and Mr. Huang Shao Ru, has been established to advise the Independent Shareholders as to whether the terms of the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and how to vote at the EGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, have been appointed to provide them with an independent opinion on (i) whether or not the Share Consolidation (given that the Share Consolidation is inter-conditional with the Open Offer), the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole and the terms thereof are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Independent Board Committee should recommend the Independent Shareholders to vote in favour of the relevant resolutions relating to the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver at the EGM.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular as well as the information and representations provided to us by the Company, the Directors and the management of the Company.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, the reasonableness of the opinions expressed by the Company, its professional advisers and/or the Directors which have been provided to us nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided to us by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date. Should there be any material changes after the despatch of the Circular, Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in, the Offer Shares, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

Our opinion is based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this Letter should be construed as recommendation to hold, sell or buy any Shares or any other securities of the Company.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Share Consolidation, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver, we have considered the following principal factors and reasons.

#### 1. Business of and financial information of the Group

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.

##### *Annual results for the years ended 31 December 2013 and 2012*

As set out in the annual report of the Group for the year ended 31 December 2013 (the “**2013 Annual Report**”), the Group recorded a decrease in turnover from approximately HK\$430.51 million in year 2012 to HK\$286.15 million in year 2013. The decrease in turnover was primarily due to the significant drop in sales of coal following the suspension of underground coal mining operation in the PRC in the second half of 2013. As stated in the Board Letter, the underground coal mine has resumed operation in February 2014 after implementing effective costs control measures in the mining operation.

As advised by the Company’s management and as set out in the 2013 Annual Report, the decrease in turnover of woven bags manufacturing business was due to the reduced sales orders from its principal customer as a result of the reduction of production capacity. The woven bags manufacturing business was the major source of the Group’s revenue accounting for approximately 70.95% of the Group’s revenue in 2013.

It was noted in the 2013 Annual Report that, the overall decrease in the Group’s turnover for the year ended 31 December 2013 was partially offset by the increase in the income from the provision of coal upgrading services following the commencement of commercial operation of the Group’s Changchuan Guochuan Coal Upgrade Plant in the PRC in year 2013.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Net loss attributable to the owners of the Company of approximately HK\$35.11 million was reported for the year ended 31 December 2013, representing an increase in loss of approximately 38.28% as compared with loss of approximately HK\$25.39 million for the year ended 31 December 2012. Including the net loss attributable to the non-controlling interests of approximately HK\$33.09 million, the Group recorded a loss of approximately HK\$68.20 million for the year ended 31 December 2013. As advised by the management of the Company, the increase in loss was mainly due to lower sales of woven bags as mentioned above and the increase in administrative and other operating expenses incurred for the expansion of coal upgrading business for the year ended 31 December 2013.

In respect of the financial position of the Group as at 31 December 2013, the Group was in tight liquidity position with net current liabilities and total liabilities of approximately HK\$26.54 million and HK\$461.94 million respectively as at 31 December 2013. The gearing ratio of the Group (expressed as a percentage of total liabilities to total assets) increased from 39.83% as at 31 December 2012 to approximately 45.40% as at 31 December 2013 and the reported bank and cash balances decreased from HK\$34.54 million as at 31 December 2012 to HK\$16.85 million as at 31 December 2013. As advised by the management of the Company, other than trade payables and accrued charges, the Group's total liabilities mainly comprised loans from non-controlling shareholders and other borrowings from independent third parties amounting to an aggregate of approximately HK\$171.48 million as at 31 December 2013.

We understand from the Company that it was difficult for the Group to secure loan facilities from banks and other financial institutions without paying an above market average interest rate given the Group's current financial position and as disclosed in the 2013 Annual Report, the Directors have taken various measures to strengthen the Group's working capital position, including obtaining non-interest bearing shareholder loan from Mr. Xu amounting to approximately HK\$25.40 million for a period from 24 March 2014 to 31 October 2015, which was received by the Group on 27 March 2014 and entering into agreements with mining contractors in the PRC to extend the repayment period of payables amounting to HK\$39.64 million.

As disclosed in the 2013 Annual Report, the Group had a total capital commitment of approximately HK\$50.12 million, which has not been provided for in the accounts of the Group as at 31 December 2013. As advised by the management of the Company, majority of the contracted commitments are related to the capital expenditures for the new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC.

### *Interim results for the six months ended 30 June 2014 and 2013*

As set out in the interim report of the Group for the year ended 30 June 2014 (the "**2014 Interim Report**"), the Group recorded a decrease in turnover to HK\$153.40 million from approximately HK\$170.44 million for the same period last year. The decrease in turnover was primarily due to the significant drop in (i) sales of woven bags business and (ii) service income from provision of low-rank coal upgrading services, both were resulted from fewer orders placed by one of their respective top five customers. As stated in the Board Letter, the underground coal mine has resumed operation in February 2014 and an increase from sales of coal was reported for the six months period ended 30 June 2014.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Net loss attributable to the owners of the Company was approximately HK\$6.31 million for the six months ended 30 June 2014 as compared to profit of HK\$5.85 million for the corresponding period last year. Including in the net loss attributable to the non-controlling interests of approximately HK\$2.23 million, the Group recorded a loss of approximately HK\$8.54 million for the six months ended 30 June 2014. As disclosed in the 2014 Interim Report, the reporting loss was mainly due to (i) the decrease in the gross margin of woven bags manufacturing business as a result of lower sales and increase in raw material and staff costs and (ii) gross loss was reported for coal upgrading business following the decrease in service orders from one of the top five customers.

The Group's financial position remained tight with net current liabilities and total liabilities of HK\$20.58 million and HK\$527.30 million as at 30 June 2014. The Company's gearing ratio (expressed as a percentage of total liabilities to total assets) deteriorated further from 45.40% as at 31 December 2013 to approximately 49.14% as at 30 June 2014. In addition, worsening of the Group's liquidity position with negative operating cash flow of HK\$2.73 million was reported for the six months ended 30 June 2014.

The Group had a total capital commitment of approximately HK\$47.04 million, which has not been provided for in the accounts of the Group as at 30 June 2014. As advised by the management of the Company, majority of the commitments are related to the capital expenditures for the construction of the new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC.

### *Business Review and Outlook*

#### Manufacture and sale of plastic woven bags and barrels

The business of woven bags manufacturing remains the Group's main source of revenue and profit contributor, accounting for approximately 71% and 50% of the Group's total revenue for the year ended 31 December 2013 and for the six months ended 30 June 2014 respectively. As stated in the Board Letter, the Group will continue to seek more business opportunities for the woven bag management business. In addition, in view of decreasing purchasing orders from the Group's customer, the Group intends to improve its operating efficiency and performance by exercising stringent control in the manufacturing process and manpower.

As advised by the management of the Company, labour cost in the PRC is considered as an important factor when considering the prospects of the woven bag manufacturing business in the PRC. According to the China Statistical Yearbook 2013 ([www.stats.gov.cn](http://www.stats.gov.cn)), being the latest publicly available governmental data, the average wage of employed persons in the urban units in the manufacturing sector has been rising from RMB36,665 per annum in 2011 to RMB41,650 per annum in 2012, representing an increase of approximately 13.60%. Moreover, according to the China Statistical Yearbook 2013 the Producer Price Index for industrial products (including plastic products), which measures the average changes in selling prices received by producers for their outputs (i.e. a measure of production revenue) has been decreasing by 7.26 % in 2012 as compared to 2011. In light of the rising labour cost and the decreasing revenue from the industrial products in the PRC, we agree that the Group's woven bag manufacturing Group has been operating in a challenging environment.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

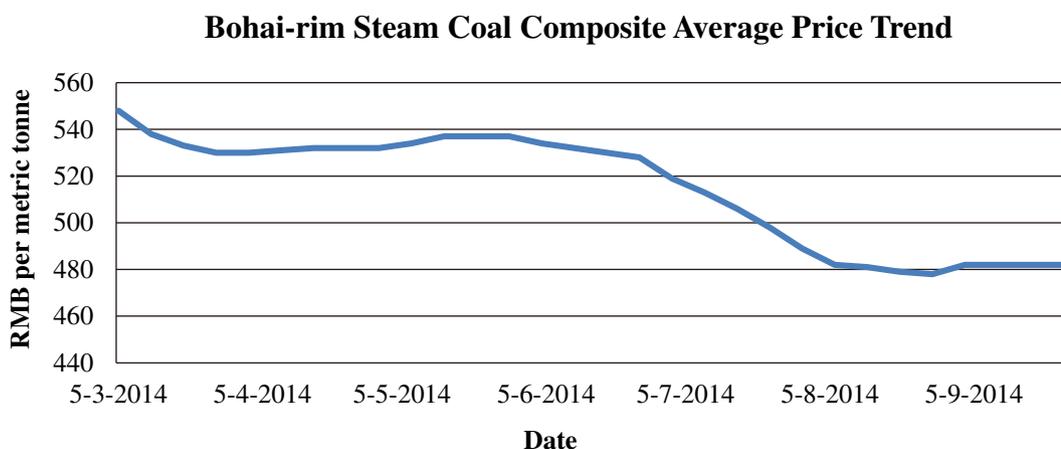
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### Sales of coal

As stated in the Board Letter, due to effective cost measures taken by the Group, the underground coal mine has resumed operation from February 2014. It accounted for approximately 20% and 48% of the Group's revenue for the year ended 31 December 2013 and for the six months ended 30 June 2014 respectively. We have discussed with management of the Company and it is expected that an annual production capacity of 1.2 million tonnes of coal in year 2014 could be achieved while that the the operation of underground coal mine will continue to be stable in the remaining months of the financial year 2014. As advised by the management of the Company, we understand that the production capacity of 1.2 million tonnes is relatively low as compared with other coal market players in the PRC, such as China Shenhua Energy Co. Ltd (stock code: 1088 HK) and China Coal Energy Co. Ltd (stock code: 1898 HK).

Based on the discussion with the management of the Company, the market prices of PRC domestic coal is one of the important factors affecting the overall financial performance and prospect of coal sales and according to the 2013 Annual Report, the Group had suspended its coal mine operation due to sluggish coal price in the second half of 2013. The operation resumed in February in 2014 due to cost effective measures taken by the Group as stated in the Board Letter.

The chart below set out the China's benchmark Bohai Rim Steam Coal Price Index for the last six months including and up to 24 September 2014, being the date of the latest weekly report of Bohai Rim Steam Coal Price Index:



Source: [www.cqcoal.com](http://www.cqcoal.com)

*Note: The Bohai Rim Steam Coal Price Index reported by Qinhuangdao Coal Market ([www.cqcoal.com](http://www.cqcoal.com)) is the index approved by the National Development and Reform Commission, the PRC and serves as a benchmark for price-setting in domestic coal trading in China. This coal price index is made based on the FOB (free on board) coal prices collected from six major coal ports along the Bohai coast, including Qinhuangdao, Jingtang, Caofeidian, Jingtang, Guotou Jingtang, Huanghua in North China.*

As illustrated in the chart above, the China's benchmark Bohai Rim Steam Coal Price Index has been demonstrated a downward trend since March 2014 and dropped from RMB548 per metric tonne on 5 March 2014 to below RMB500 per metric tonne in July 2014 and remained flat in a range from RMB478 per metric to RMB482 per metric tonne in the period between 6 August 2014 and 24 September 2014. We are of the view that the downward trend of coal price may cast

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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uncertainty on the overall financial performance of the Group's coal sales business notwithstanding the resumption of the Group's coal production in February 2014.

### Provision of low rank coal upgrading business

As advised by the Company's management, the Group entered into the coal upgrading business in the middle of 2012 via an indirect wholly-owned subsidiary of the Company, Beijing Guochuan New Energy Development Co. Ltd ("**Beijing Guochuan**"). The coal upgrading business accounted for approximately 9.38% and 2.6% of the Group's revenue for the year ended 31 December 2013 and for the six months ended 30 June 2014 respectively. Beijing Guochuan is principally engaged in the technology development, the provision of technology consulting and the promotion of coal upgrading services in the PRC and as disclosed in the 2013 Annual Report, Changchuan Guochuan, Beijing Guochuan's non wholly owned subsidiary and the Group's coal upgrading plant in the PRC has commenced commercial production from year 2013. It was further disclosed in the 2013 Annual Report that the Directors decided to expand and develop the Group's coal upgrading business in low-rank coal rich regions in the PRC, especially Eastern Inner Mongolia and the construction of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC has already commenced.

We noted that in the Company's announcement dated 11 November 2013, Beijing Guochuan and Xilinhaote City Guochuan Energy Technology Development Co., Ltd. ("**Xilinhaote Guochuan**"), an indirect wholly-owned subsidiary of the Company and a direct wholly-owned subsidiary of Beijing Guochuan, entered into a Project Management Contract for the construction of the production facilities for the abovementioned new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC with Dalian Shipbuilding Industry Equipment Manufacturing Company Limited ("**Dalian Shipbuilding**"). The tentative total project costs payable under the Project Management Contract is RMB458.85 million (equivalent to approximately HK\$587.33 million). As stated in the Board Letter, we understand that the Project Management Contract has yet to become effective and the Company is currently in negotiation with Dalian Shipbuilding to extend certain dates in the Project Management Contract as the latest date to fulfill the conditions as set out in this contract has expired. As further stated in the Board Letter, there was no agreement reached in respect of the Project Management Contract for the production facilities as at the Latest Practicable Date and the Project Management Contract may or may not proceed.

As stated in the Board Letter, the Directors expected that the Group's revenue would be improved upon commencement of the operation of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC. We understand that the Directors are optimistic about the coal upgrading business and therefore willing to apply the proceeds from the Open Offer to construct the coal upgrading plant (but not applying to the above cost of the construction of production facilities under The Project Management Contract as the Project Management Contract may or may not proceed) in Xilinhaote City, Inner Mongolia, the PRC.

Further analysis of the coal upgrading business was disclosed in the section headed "Reasons for the Open Offer and intended use of proceeds" below.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Summary

In view of the above “Business review and outlook” and referencing to the financial results of the Group for the year ended 31 December 2013 and for the six months ended 30 June 2014, we consider that (i) the business performance of the woven bags manufacturing business remains uncertain in light of the challenging operating environment; (ii) the decreasing trend of average coal price may affect the overall financial performance of coal sales business; (iii) the Group’s revenue could be improved upon the commencement of the operation of the new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC; (iv) the financial performance and liquidity position of the Group remained unsatisfactory as disclosed in both the 2013 Annual Report and the 2014 Interim Report, therefore we are of the view that the Group is in need of funding for the development of the coal upgrading business as well as for the general working capital of the Group in order to further develop the Group’s business.

### *Litigation*

Reference is made to the announcements of the Company dated 14 July 2014, 25 July 2014 and 15 August 2014 respectively in relation to the patent infringement proceedings with 長青中美 (北京) 能源技術有限公司 (Evergreen China Energy Technology Company Limited) (“**Evergreen**”) against Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan at the Third Intermediate People’s Court of Beijing to request for the cease of the infringement. The case was accepted by the Court in May 2014. Evergreen has also engaged Beijing Lifang & Partners Law Firm (“**Lifang**”) to file request for invalidation of five licensed patents (“**Licensed Patents**”) of Mr. Xu with the Patent Reexamination Board of the State Intellectual Property Office (“**SIPO**”) of the PRC. The Licensed Patents were licensed by Mr. Xu to Beijing Guochuan and sub-licensed to Xilinhaote Guochuan under the Licensing Agreement for the Group to use in its coal upgrading business.

We note that there were a total of six patented technologies licensed under the Licensing Agreement. As set out in the section headed “Litigation” in Appendix IV to this Circular, only five out of six patented technologies were granted by the SIPO and were the subjects of the invalidation request filed by Lifang on behalf of Evergreen against the Group.

As advised by the Directors, the technology under the remaining one refused patent is not part of the core technology currently used by the Group in upgrading lignite, as such the refusal of the grant of the remaining one patent would not have material impact on the Group’s business operation.

Details of the patent infringement proceedings are set out in the section headed “Litigation” in Appendix IV to this Circular.

Based on the legal advice by Commerce & Finance Law Offices, the PRC legal adviser of the Group, the evidence provided by Evergreen is not sufficient to prove that (i) Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan made or used the equipment protected by Evergreen’s patent; (ii) the equipment and technical solutions actually made or used by Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan fall within the scope of protection of Evergreen’s patent; and (iii) there has been infringement on the part of Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, as disclosed in the announcements of the Company dated 25 July 2014, 15 August 2014 and 23 September 2014 of the Company, the Patent Reexamination Board of the SIPO decided that all the reasons alleged by Evergreen for invalidation of the five Licensed Patents could not be substantiated and the validity of such five Licensed Patents should be upheld based on the amended patent claims submitted by Mr. Xu.

Based on the legal advice given by the PRC legal adviser of the Group, the decisions of the Patent Reexamination Board of the SIPO and the information available by the Company as at the Latest Practicable Date, and given that (i) the monetary amount of RMB100,000 claimed by Evergreen to compensate for the reasonable expenses paid by Evergreen to stop the infringement act under the patent infringement proceedings is immaterial; (ii) the Patent Reexamination Board of the SIPO has upheld the validity of all five of the Licensed Patents (iii) the Group can continue to use the Licensed Patents which have been upheld by the Patent Reexamination Board of the SIPO in its coal upgrading business and (iv) the Group is able to apply other technology or identify other suitable technology for its coal upgrading business as stated in the Board Letter, the Directors are of the opinion and confirmed that the patent infringement proceedings will not have any material effect on the financial or business position as well as the business operation of the Group as a whole.

Having discussed with the management of the Company and based on the information and documents provided by the Company and disclosed in the section headed “Litigation” in Appendix IV – “General Information” to this Circular, we concur with the Directors’ view that the patent infringement proceedings will not have any material impact on the Group’s business operation, financial and business position subject to the final decision of Third Intermediate People’s Court of Beijing in respect of the patent infringement proceedings. As at the Latest Practicable Date, the Court has yet to have any decision on the proceedings and we are unable to assess the impact of the court decision on the Group’s operations.

### **2. Reasons for the Open Offer and intended use of proceeds**

As stated in the Board Letter and having discussed with the management of the Company, we understand that the Group faced tight liquidity issue with negative operating cash flow of HK\$2.73 million for the six months ended 30 June 2014 and net current liabilities of HK\$20.58 million as at 30 June 2014 and was in net loss making position for the past two years. The Board considers that the Open Offer represents an opportunity for the Company to enhance its working capital. Upon completion of the Open Offer, the Company will be in a better position to facilitate its business development and therefore enhance the overall value of the Shares. Moreover, the Board is of the view that it is in the interests of the Company and its Shareholders as a whole to raise the capital through the Open Offer since it would allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Group. Accordingly, the Directors consider that the Open Offer is in the interests of the Company and the Shareholders as a whole.

As confirmed by the Directors, the Company had not carried out other equity fund raising activities during the past 12 months immediately prior to the Latest Practicable Date. As at the Latest Practicable Date, save for the Underwriting Agreement, the Company has not entered into any agreement, understanding, intention or negotiation regarding any fund raising plan.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As stated in the Board Letter, the net proceeds from the Open Offer are estimated to be approximately HK\$110.0 million and the Company intends to apply the net proceeds from the Open Offer as follow:

- (i) approximately HK\$65.00 million will be used by the Company for the capital expenditures in the business development of the provision of low-rank coal upgrade services;
- (ii) approximately HK\$25.00 million approximately will be used for the repayment of the Group's outstanding borrowings owing to Shenzhen Liangyun Investment Company Limited, a PRC trading company which is an independent third party to the Company with the loan amount of HK\$28,897,698, due date on 19 August 2015 and the loan interest rate at 5%; and
- (iii) approximately HK\$20.00 million will be utilised for the general working capital of the Group.

### *Capital expenditures on coal upgrading business*

Having discussed with the management of the Company, we understand that it is the intention of the Group to develop the coal upgrading business.

Despite coal consumption in China has been on a gradual downward trend, we concur with the Director's view that coal remains China's dominant energy source, making up more than 2/3 of the total energy consumption and there would be a good potential for the Group to develop the coal upgrading business in view of China's abundant coal resources as well as the increasing awareness of clean coal technology as a way to curb pollution issues in China.

In order to assess the energy structure in respect of coal resources in the PRC, we have reviewed the statistics of World Energy Resources 2013 Survey ("**Survey**") issued by the World Energy Council (<http://www.worldenergy.org/>) and the BP Statistical Review of World Energy June 2014 ("**Review**") issued by BP Plc (<http://www.bp.com>), we note that China ranked third in terms of proved coal reserves with 114,500 million tonnes. In addition, it was stated in the BP Statistical Review of World Energy June 2014 that China ranked first in annual commercial production and consumption of 1,840 million tonnes and 1,925.3 million tonnes of coal respectively for the year 2013. It was further projected in the BP Energy Outlook 2035 issued by BP Plc that China's energy mix continues to evolve with coal's dominance, though the proportion of which will be declined from 69% today to 52% in year 2035.

According to the website of World Energy Council, World Energy Council is a United Nations accredited global energy body and a leading global representative body of the energy industry formed in 1923. The Survey is recognised worldwide as the premier source of information on global energy resources since the first edition in 1933.

According to the website of BP Plc, BP Plc is one of the world's leading integrated oil and gas companies starting in 1908. BP Plc is principally engaged in (i) exploration and production of oil and natural gas; (ii) supplies of petroleum products; and (iii) manufactures and markets chemicals. It is currently listed in the United Kingdom being one of the composite stocks of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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FTSE 100 index. The “BP Statistical Review of World Energy” reports are issued by BP Plc in June every year with a history of 63 years, which provides a third party and globally consistent data on major sectors of the world energy markets, including coal market of China.

Each of the Survey and the Review are considered as one of the most widely respected and authoritative publications in the field of energy economics, used for reference by media, academia, world governments and energy companies.

We also note from the Board Letter that the PRC government has been paying more attention to the clean coal technology and according to the management of the Company, coal upgrading is a key aspect of the development of clean coal technology in China. The Group entered the coal upgrading business from mid 2012 and has been licensed with the low-rank coal upgrading technology by Mr. Xu. As disclosed in the Company’s announcement dated 20 December 2012, the low-rank coal upgrading technology had been selected as one of the environmental projects of 2012’s 863 Program (the National High-Tech Research and Development Programme, which is a major Chinese national research programme launched by the Chinese Ministry of Science and Technology).

We would like to draw your attention to paragraph headed “Litigation” above that there were patent infringement proceedings against the licensed technology currently in use by the Group. The Directors confirmed that the patent infringement proceedings will not have any material effect on the financial or business position as well as the business operation of the Group. Please refer to paragraph headed “Litigation” above as well as section headed “Litigation” in Appendix IV to this Circular.

As disclosed in the paragraph headed “Business Review and Outlook” above and the 2013 Annual Report, the Group’s first coal upgrading factory in Changchun, the PRC has commenced commercial production in year 2013 and the Group is in construction of the new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC for the development of its coal upgrading business in the low-rank coal rich regions in the PRC, especially Eastern Inner Mongolia.

As stated in the Board Letter and having discussed with management of the Company in relation to the planned capital expenditures including capital commitment of approximately HK\$47 million as disclosed in the 2014 Interim Report (majority of which are related to the construction of the new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC), the construction schedule as well as the valuation report in Appendix III to this Circular in relation to the new coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC, we understand that the payment of the capital expenditures and other costs, including materials procurements and land premium to perfect the title associated with the construction of the superstructure of the new coal upgrading plant as well as general capital expenditures on the coal upgrading business amount to an aggregate of approximately HK\$65 million. We understand from the Company that there is no other forms of funding without interest burden are available to the Group except Open Offer due to poor financial position of the Group. The Open Offer is relatively more straightforward administratively and less time consuming compared with the rights issue as the rights issue will involve extra administrative work and cost for the trading arrangements in relation to the nil-paid rights, therefore as advised by the Directors, the Group could only settle such expenditures if the Open Offer could be successfully completed.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of (i) coal being China's dominant energy source; (ii) the increased level of attention on the clean coal technology from the PRC government; and (iii) the decreasing trend of sales of woven bags manufacturing business, we therefore concur with the Directors' view that the development and expansion of the Group's coal upgrading business is in the interests of the Company and the Shareholders as a whole.

### *Repayment of borrowing of HK\$25 million*

Based on the information contained in the 2014 Interim Report, the Group had total borrowings from independent third parties amounting to HK\$99.96 million as at 30 June 2014. These borrowings were repayable in years 2015 to 2017, of which HK\$46.04 million carried interests at 5% to 7% as advised by the management.

As stated in the Board Letter, the Company intends to apply HK\$25.00 million from the proceeds of the Open Offer to repay the loan due to Shenzhen Liangyun Investment Company Limited, an independent third party to the Company with the loan amount of HK\$28.90 million, repayment on 19 August 2015 and the loan interest rate is 5%. As further stated in the Board Letter and as advised by the Company's management, we understand that, among all creditors, Shenzhen Liangyun Investment Company Limited had indicated to the Group its unwillingness to extend the repayment date of this loan upon due and accordingly, the management of the Company intends to apply HK\$25 million from the proceeds of the Open Offer to repay this loan. We understand from the management of the Company that the remaining balances of this loan will be financed by the Company's internal resources.

We concur with Directors' opinion that the Open Offer would provide a good opportunity to reduce the liabilities of the Group.

### *General working capital of HK\$20 million*

Having also discussed with the management regarding the general working capital requirement of the Group, we understand that HK\$20 million would be earmarked for the payment of the general administration and corporate expenses of the Group's Hong Kong operation for the coming financial year, including principally (i) the rental of Hong Kong office of approximately HK\$1.69 million; (ii) the directors' fees and staff salaries of approximately HK\$8.64 million; and (iii) the audit, legal and professional fees of approximately of HK\$5.03 million.

Given that (i) the projected expenditures are based on the actual general administration and corporate expenses incurred for the Group's Hong Kong operation for the year ended 31 December 2013 as well as the current financial position of the Group, and (ii) the Group is unable to generate positive operating cash flow for the six months ended 30 June 2014 as disclosed in the 2014 Interim Report, the allocation of HK\$20.00 million for the general working capital of the Hong Kong operation could alleviate the Group's short term financial pressure in settling day to day administration charges and corporate expenses of the Hong Kong operation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the Board Letter, we note that the Directors have considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares and after taking into account the benefits and costs of each of the alternatives, the Directors believe that fund raising in the way of Open Offer is cost efficient which allows the Group to strengthen its balance sheet without incurring additional interest burden.

Given the persistent loss making and net current liabilities position of the Group, the Company is of the view that it is unlikely to obtain borrowing from banks or other financial institutions. The Directors consider that, unlike borrowing or issuance of debt securities, the Open Offer would be a comparatively preferable means of raising long-term funds without subject itself to interest burden or possibility of capital shortfall in the case of repayment of borrowing or debt, we thus concur with the view of the Directors that (i) it is prudent to finance the Group's business and development by long-term funding without subject to interest burden and (ii) bank borrowing and other debt financing will adversely affect the Group's balance sheet and increase the gearing ratio.

Furthermore, we concur with the Directors' view that unlike placement of new Shares which will result in dilution of Shareholders' interests in the Company, the Open Offer would enable the Qualifying Shareholders to maintain their relative percentage interests in the Company by taking up their allotments under the Open Offer in full. As such, the Qualifying Shareholders are given an opportunity to participate in the future growth and development of the Group.

While considering to propose rights issue or open offer, which can both raise funds and allow the Qualifying Shareholders to maintain their existing shareholdings in the Company, the Board considers that the procedures for the Open Offer is relatively more straightforward administratively and less time consuming compared with rights issue as rights issue will involve extra administrative work and cost for the trading arrangements in relation to the nil-paid rights. The associated costs, which are estimated to be approximately HK\$350,000 as stated in the Board Letter, to be incurred for conducting a rights issue will be higher than the Open Offer as the Company will incur extra costs on printing the provisional allotment letters and the excess application forms, any splitting costs for Shareholders who only take up their rights issue entitlement partially, the fee payable for nil-paid rights trading arrangement, additional printing costs of share certificates for new shareholders who will purchase the nil-paid rights on the market, additional professional fees for preparing and reviewing the provisional allotment letters and the excess application forms and liaising with the Registrar. Considering the foregoing, there will be additional time involved by the Company to administer and arrange for the nil-paid rights trading, excess application, printing services and for reviewing the provisional allotment letters and the excess application forms and other necessary documents, including the time for the Company to liaise with the parties involved in the rights issue such as the Registrar, the Underwriter, financial printer and its professional advisers. Hence, the absence of trading nil-paid rights in the Open Offer reduces the associated administrative work and thus less time consuming.

Taking into account of the above, we are of the view that fund raising by way of the Open Offer is an acceptable and equitable means for the Company to raise new capital while avoiding high transaction and interest costs, and is in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that (i) the Group's persistent net loss making and tight liquidity position; (ii) the urgent need for funds required as working capital in order to ease the short term financial stress of the Group, (iii) the funding required for the development of the Group's coal upgrading business; (iv) the lack of alternative funding other than the Open Offer to the Company without interest burden and that the Open Offer is relatively more straightforward administratively and less time consuming compared with the rights issue as the rights issue will involve extra administrative work and cost for the trading arrangements in relation to the nil-paid rights; and (v) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company, we concur with the view of the Directors that the Open Offer is in the interest of the Company and the Shareholders as a whole.

### 3. Principal Terms of the Open Offer

#### (a) Basis of the Open Offer

As stated in the Board Letter, the Open Offer is on the basis of one (1) Offer Share for every one (1) Consolidated Share held on Record Date and payable in full on acceptance. Offer Shares not taken up by the Qualifying Shareholders will be fully underwritten by the Underwriter. It is expected that the Company will raise approximately HK\$114.6 million (before expenses) as a result of the Open Offer. The conditions precedent to the Open Offer are set out in the section headed "Conditions of the Open Offer" in the Board Letter.

#### (b) Subscription Price

The Subscription Price of HK\$0.50 per Offer Share, which is payable in full on application. The net Subscription Price per Offer Share (after deducting the relevant expenses) will be approximately HK\$0.48. The Subscription Price represents:

- (i) a discount of approximately 66.67% to the theoretical closing price of HK\$1.50 per Consolidated Share based on the closing price of HK\$0.30 per Existing Share as quoted on Stock Exchange on the Last Trading Day and adjusted for the effect of Share Consolidation;
- (ii) a discount of approximately 50.00% to the theoretical ex-entitlement price of approximately HK\$1.00 per Consolidated Share calculated based on the closing price of HK\$0.30 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation;
- (iii) a discount of approximately 65.64% to the average of the closing prices of HK\$1.455 per Consolidated Share based on the average closing prices of HK\$0.291 per Existing Share for the last five consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Share Consolidation;
- (iv) a discount of approximately 65.03% to the average of the closing prices of HK\$1.43 per Consolidated Share based on the average of the closing prices of HK\$0.286 per Existing Share for the last ten consecutive trading days including and up to the Last Trading Day and adjusted for the effect of the Share Consolidation;

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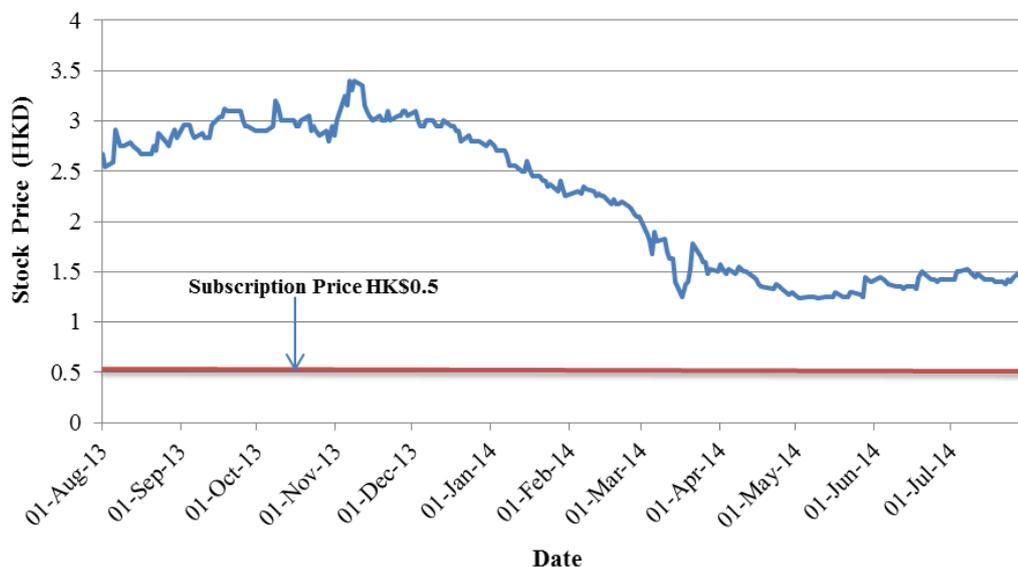
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- (v) a discount of approximately 75.49% to the audited net asset value per Consolidated Share of approximately HK\$2.04 based on the latest audited consolidated net asset value attributable to owners of the Company as at 31 December 2013 and the number of Shares in issue as at the Latest Practicable Date;
- (vi) a discount of approximately 75.12% to the net asset value per Consolidated Share of approximately HK\$2.01 based on the latest unaudited consolidated net asset value Group attributable to owners of the Company as at 30 June 2014 and the number of Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 40.48% to the closing price of HK\$0.84 per consolidated Share based on the closing price of HK\$0.168 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date.

As stated in the Board Letter, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter having regard to, among other things, the prevailing market price of the Shares and the financial position of the Group. As the Offer Shares are offered to all Qualifying Shareholders, we are advised by the Directors that they would like to set the Subscription Price at a level that will encourage the Qualifying Shareholders to participate in the Open Offer.

### *Historical closing price of the Company*

We have reviewed the closing prices of the Shares (adjusted on the assumption that the Share Consolidation has become effective) by comparing them with the Subscription Price for a 12-month period from 1 August 2013 up to and including the Last Trading Day, i.e. 29 July 2014 (the "Review Period"). We consider that a 12-month review period is a reasonable period of time within which the historical trend of the closing prices of the Shares can be illustrated.



Source: <http://www.hkex.com.hk/>

Note: adjusted on the assumption that the Share Consolidation has become effective

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During the Review Period, the closing prices of the Consolidated Shares ranged from the lowest of HK\$1.24 on 2 May 2014 and 9 May 2014 to the highest of HK\$3.40 on 6 November 2013 and 8 November 2013. The average closing price of the Consolidated Shares during this period was approximately HK\$2.13.

The Subscription Price of HK\$0.50 was set at a level which is considerably below the theoretic closing price of HK\$1.50 per Consolidated Share based on the closing price of HK\$0.30 per Existing Share, which represents a discount of approximately (i) 85.29% to the highest closing price of the Shares; (ii) 76.53% to the average closing price of the Shares; and (iii) 59.68% per the lowest closing price of the Shares during the Review Period. Besides, we note that there was a general downward trend in share price of the Company since November 2013.

Based on the Comparables (as defined below), we note that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Shares is in line with common market practice and we consider it is acceptable.

### *Comparison with other open offers*

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed other open offers conducted by other listed companies on the Main Board and the Growth Enterprise Market of the Stock Exchange in order to provide a general reference for the Subscription Price in respect of the common market practice on open offers conducted by listed companies in Hong Kong. We have identified an exhaustive list of, 24 open offers (the “**Comparables**”) based on the selection criteria of (i) announced by other companies that are listed on the Stock Exchange from 29 January 2014 up to and including 29 July 2014, being the date of the Underwriting Agreement (the “**Comparable Period**”); and (ii) shares of the companies have not been suspended for trading for more than 12 months from the dates of the respective announcements in relation to the open offer transactions, for reference.

It is noted that the business activities of the Comparables vary from company to company with their different financial positions, business performances and future prospects. However, we consider that (i) the Comparables were determined under similar market conditions and sentiments as the Open Offer, and they might be able to reflect the recent trend of open market transactions in the Hong Kong stock market; and (ii) there are reasonable numbers of Comparables for the purpose of comparison during the Comparable Period and each of them represents a fair and representative sample. Accordingly, we consider the selection of the six-month Comparable Period is appropriate for our analysis and the Comparables are fair and representative samples.

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Details of the Comparables are summarised in the following table.

Announcement date	Company (Stock Code)	Basis	Premium/ (discount) of subscription price over/(to) the closing price on the Last Trading Day (%)	Premium/ (discount) of subscription price over/ (to) the theoretical entitlement price (%)	Premium/ (discount) of subscription price over/ (to) the NAV (Note 6) per share (%)	Maximum Dilution (Note 1) (%)	Underwriting Commission (%)	Excess application (Y/N)
29/07/2014	China Culiangwang Beverages Holdings Limited (formerly known as China Green (Holdings) Limited) (904)	1 for 2	(49.00)	(39.00)	(94.02)	33.33	HK\$3,269,832.70 or 4% (Note 2)	N
25/7/2014	Auto Italia Holdings Limited (720)	1 for 2	(39.81)	(30.85)	51.05	33.33	2	Y
25/7/2014	Integrated Waste Solutions Group Holdings Limited (923)	1 for 1	(50.60)	(34.00)	(48.08)	50.00	2	N
22/07/2014	Henry Group Holdings Limited (859)	1 for 5	(24.11)	(20.93)	(67.77)	16.67	3	Y
16/7/2014	GreaterChina Professional Services Limited (8193)	1 for 2	(51.22)	(41.18)	(31.76)	33.33	2	N
16/07/2014	Well Way Group Limited (8063)	2 for 1	(62.50)	(35.76)	(75.58)	66.67	3.5	N
30/06/2014	Celebrate International Holdings Limited (8212)	8 for 1	(80.00)	(30.80)	N/A (Note 7)	88.89	3	Y
25/06/2014	EDS Wellness Holdings Limited (8176)	1 for 2	(8.26)	(5.66)	N/A (Note 7)	33.33	3.5	N
09/06/2014	China Investment And Finance Group Limited (1226)	1 for 2	(47.37)	(37.50)	(78.42)	33.33	2	N
05/06/2014	Green International Holdings Limited (2700) (Note 3)	3 for 10 (2 bonus warrants for 3 offer shares)	(54.55)	(48.28)	171.40	23.08	-	Y
09/05/2014	China Energy Development Holdings Limited (228)	1 for 4	(8.70)	(7.00)	(78.54)	20.00	2.75	N
07/05/2014	DX.com Holdings Limited (8086)	1 for 10	(45.95)	(43.60)	111.44	9.09	3	N
30/04/2014	Cosmopolitan International Holdings Limited (120)	2 for 1	(83.61)	(62.96)	(82.34)	66.67	-	Y
25/04/2014	21 Holdings Limited (1003)	1 for 2	(49.49)	(16.46)	(22.78)	33.33	3.5	N

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Announcement date	Company (Stock Code)	Basis	Premium/ (discount) of subscription price over/(to) the closing price on the Last Trading Day (%)	Premium/ (discount) of subscription price over/ (to) the theoretical entitlement price (%)	Premium/ (discount) of subscription price over/ (to) the NAV (Note 6) per share (%)	Maximum Dilution (Note 1) (%)	Underwriting Commission (%)	Excess application (Y/N)
25/04/2014	Inno-Tech Holdings Limited (8202)	25 for 1	(90.32)	(26.37)	N/A (Note 7)	96.15	3	N
25/04/2014	Hao Tian Development Group Limited (474) (Note 4)	2 for 1 (bonus issue of 1 bonus share for 1 offer share)	(91.83)	(69.21)	(79.62)	75	2.5	N
22/04/2014	China Packaging Group Company Limited (572)	1 for 2	(70.37)	(61.17)	N/A (Note 7)	33.33	2.5	N
11/04/2014	Sunwah Kingway Capital Holdings Limited (188)	1 for 4	(5.13)	(3.90)	(8.07)	20	2	Y
11/04/2014	MelcoLot Limited (8198)	3 for 10	(24.37)	(19.86)	N/A (Note 7)	23.08	3	N
01/04/2014	Well Way Group Limited (8063)	1 for 2	(22.22)	(15.97)	(62.02)	33.33	3.5	N
31/03/2014	China Merchants Holdings (International) Company Limited (144) (Note 5)	1 unit of unlisted mandatory convertible securities for 5 ordinary shares	13.55	11.04	57.34	16.67	–	Y
28/03/2014	Ground Properties Company Limited (989)	1 for 2	(28.57)	(20.95)	33.79	33.33	–	Y
27/02/2014	Sustainable Forest Holdings Limited (723) (Note 4)	1 for 10 (bonus issue of 5 bonus shares for 1 offer share)	(64.40)	(53.20)	(84.43)	37.5	2.5	N
26/02/2014	Ming Fung Jewellery Group Limited (860)	1 for 2	(57.90)	(47.70)	(82.42)	33.33	1	N
		Max	(91.83)	(69.21)	171.40	96.15	4.00	
		Min	(5.13)	(3.90)	(94.02)	9.09	–	
		Average	(48.27)	(33.58)	(29.38)	40.27	2.28	
		Median	(49.49)	(34.00)	(64.90)	33.33	2.50	
		Company	(66.70)	(50.00)	(75.12)	50.00	–	

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Sources: [www.hkexnews.hk](http://www.hkexnews.hk)

*Note 1:* Maximum dilution effect of each open offer is calculated as: (number of offer shares and (if any) bonus shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the offer shares under the basis of entitlement + number of offer shares and (if any) bonus shares to be issued under the basis of entitlement) x 100%, e.g. (i) for an open offer with basis of 1 offer share for every 1 existing share held with bonus issue on the basis of 1 bonus share for every 1 offer share taken up, the maximum dilution effect is calculated as  $((1+1/(1+1))*100) = 66.67\%$ ; and (ii) for an open offer with basis of 1 offer share for every 2 existing shares held, the maximum dilution effect is calculated as  $1/(1+2) = 33.33\%$ .

*Note 2:* The commission amount was fixed at HK\$3,269,832.70, which represents approximately 4% of the subscription price of the maximum underwritten shares.

*Note 3:* In view of the bonus warrant may or may not be exercised, the maximum dilution does not take into account the shares to be issued upon exercise of the bonus warrant.

*Note 4:* For illustrative purposes, the subscription price is the effective subscription price after taking into account of the bonus issue. The discounts of subscription price to the closing price on the last trading day and to the theoretical entitlement price are calculated based on the effective subscription price.

*Note 5:* The securities offered were convertible securities which ranked senior to the ordinary shares of the listed company and with coupon payments. This open offer transaction is excluded due to different nature of transaction.

*Note 6:* The NAV represented the audited/unaudited net assets value attributable to owners of the company based on their respective latest published annual/interim accounts before the announcement of the open offer transactions.

*Note 7:* Net liabilities were reported for these companies at the material time and excluded for comparison purpose.

As indicated in the above table, subscription prices of the Comparables were set at discount to their respective closing prices on the last full trading day on/prior to the date of release of the relevant announcements, ranging from a discount of approximately 5.13% to a discount of approximately 91.83% (the “**Market Range**”), with the average being a discount of approximately 48.27%.

The discount of approximately 66.70% as represented by the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the Market Range but is deeper than the market average.

On the other hand, the variance of the subscription prices to the theoretical ex-entitlement prices of the shares of the Comparables ranged from a discount of approximately 3.90% to a discount of approximately 69.21% (the “**TEP Market Range**”), with the average being a discount of approximately 33.58%.

The discount of approximately 50.00% as represented by the Subscription Price to the theoretical ex-entitlement price of the Shares falls within the TEP Market Range but is deeper than the TEP market average.

In addition, the subscription prices of most of the Comparables were set at a discount to the net asset value per share of the Comparables based on their respective latest published audited/unaudited accounts prior to the date of release of the relevant announcements. The market range of the Comparables were set at a range from premium of 171.40% to a discount of 94.02% (“**NAV Market Range**”) as compared to the audited/unaudited net asset value per share of the Comparables based on their respective latest published audited/unaudited accounts prior to the date of release of the relevant announcements, with the average being a discount of approximately 29.38%.

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The discount of approximately 75.12% as represented by the Subscription Price to the net asset value per Share falls within the NAV Market Range of the Comparables but is significantly deeper than the average of the NAV Market Range.

We understand that the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market price of the Shares and the financial position of the Group and we note that the discount to the Subscription Price over the (i) closing price of the Shares on the Last Trading Day; (ii) theoretical ex-entitlement price of the Shares and (iii) net asset value per Share and (iv) maximum dilution is more than the respective average among the Comparables. Having taken into account that:

- (i) the unsatisfactory financial position of the Group and its need for funding as discussed in the section headed "Reasons for the Open Offer and intended use of proceeds" above;
- (ii) the decreasing trend of the closing prices of the Shares;
- (iii) it is common for the listed issuers in Hong Kong to issue offer shares at a discount to the market price in order to enhance the attractiveness of an open offer transaction;
- (iv) the Subscription Price is set at a relatively deep discount to the prevailing market price of the Shares to enhance the attractiveness of the Open Offer;
- (v) the interests of all Qualifying Shareholders will not be prejudiced by the relatively low subscription price so long as they are offered an equal opportunity to subscribe for the Offer Shares and maintain their respective pro rata shareholdings in the Company despite the relatively high maximum dilution effect;
- (vi) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the Market Range;
- (vii) the discount represented by the Subscription Price to the theoretical ex-entitlement price of the Shares falls within the TEP Market Range and;
- (viii) the discount represented by the Subscription Price to the net asset value per Share falls within the NAV,

we consider, on balance, the Subscription Price to be fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Excess Application*

There is no arrangement for the Qualifying Shareholders to apply for any Offer Shares which are in excess of his/her/its entitlement, however we note that the Company has set the Subscription Price at a considerable discount to the prevailing market price of the Shares so as to encourage the Qualifying Shareholders to exercise its rights to subscribe for the Offer Shares.

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We consider that the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements. However, we consider that the aforesaid should be balanced against the fact that:

- (i) the terms of the Open Offer are structured in such a way as to encourage the Qualifying Shareholders to take up their respective assured entitlement of the Offer Shares as the Subscription Price is set at a relatively deep discount to the prevailing market price of the Shares to enhance the attractiveness. It provides a reasonable incentive for the Qualifying Shareholders to participate in the Open Offer;
- (ii) the Open Offer is offered equitably to all Qualifying Shareholders with an equal opportunity to maintain their respective pro rata shareholdings in the Company;
- (iii) the Qualifying Shareholders have the first right to decide whether to accept and those Qualifying Shareholders who choose to fully accept their respective entitlements under the Open Offer can maintain their respective pro rata shareholdings in the Company after the Open Offer;
- (iv) the lack of an excess application arrangement will lower the administrative cost, including printing of application forms and the additional professional fees for reviewing the application forms and other necessary documents and liaising with the Registrar, time cost of the Company's employees to administer and arrange the excess application as well as additional charges from the Registrar, of the Open Offer to the Company, which benefits the Company and all the Shareholders as a whole; and
- (v) the absence of excess application arrangement for the Offer Shares is subject to approval by the Independent Shareholder at the EGM.

We noted that most of the Comparables did not offer excess application for the offer shares and the lack of an excess application arrangement under the open offers is common and in line with the market. In addition, we consider that the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they so wish by applying the Offer Shares according to their shareholdings in the Company and it does not give rise to a less favourable situation to the Independent Shareholders than the Underwriter. As such, we are of the view that the absence of excess application arrangement, on balance, is acceptable.

#### **4. Underwriting Arrangement**

##### *(a) The Underwriter and Underwriting Commission*

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Offer Shares which have not been taken up by the Qualifying Shareholders. Accordingly, the Open Offer is fully underwritten.

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The Company is not required to pay the Underwriter any underwriting commission. We noted from Comparables above that an underwriting commission was normally charged by the respective underwriters in the open offer exercises and the underwriting commission in general ranged from 0% to 4% on the gross funds raised. In light of the fact that the Group can save the cost for paying the underwriting commission and reduce the overall expenses incurred in the Open Offer, we consider nil underwriting commission is in the interest of the Company and the Independent Shareholders as a whole.

In addition, the rights of the Independent Shareholders would not be different whatever it is the Underwriter or other third parties being the underwriter of the Open Offer and the Open Offer, if undertaken by financial institutions will inevitably incur underwriting commission, while the underwriting by the Underwriter (no underwriting commission is charged) will reserve more funds from the Open Offer which will enhance the Company's liquidity position and for the benefits of the Company and the Shareholders as a whole.

As stated in the Board Letter, the Underwriter is of the view that the Open Offer is in the interests of the Group in the long run as the Group requires fundings for its general working capital to the Group. In addition, if the Underwriter, Mr. Xu and parties acting in concert with any of them become the Controlling Shareholder as a result of discharging the underwriting obligations under the Underwriting Agreement, the Underwriter has no intention to (i) introduce any major changes to the Group's existing business activities; (ii) disrupt the continued employment of the Group's employees; and (iii) re-deploy the Group's fixed assets other than in the ordinary course of its business.

*(b) Termination of the Underwriting Agreement*

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should be noted that the Open Offer would not be proceeded if the Underwriter exercises its termination rights under the Underwriting Agreement, details of the provisions granting the Underwriter such termination rights are included in the section headed "Termination of the Underwriting Agreement" in the Board Letter.

In view that it is common to have a termination clause incorporated in underwriting agreement, we consider such provisions are normal commercial terms and in line with the normal market practice.

Save as aforesaid, we have also reviewed other major terms of the Underwriting Agreement and we are not aware of any terms being unusual. Consequently, we are of the opinion that the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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### 5. Potential dilution effect on the shareholding interests of Independent Shareholders

The table which demonstrates the possible shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Open Offer is set out in the section headed “Effects on Shareholding Structure” in the Board Letter.

Since the Open Offer is extended to all Qualifying Shareholders, those Qualifying Shareholders who subscribe their entitlements in full under the Open Offer could maintain their shareholding interests in the Company upon completion of the Open Offer. However, for those Qualifying Shareholders who choose not to take up their assured entitlements in full, their shareholding interests in the Company will be diluted up to a maximum of approximately 50%.

After taking into account of the following factors: (i) the net current liabilities position of the Group as at 31 December 2013 and 30 June 2014 and the Group will turnaround from net current liabilities to net current assets immediately upon completion of the Open Offer with contribution by funds raised from the Open Offer; (ii) the Open Offer will provide fundings for the development of its existing business and ease the current short term financial stress of the Group; (iii) the Open Offer gives an equal opportunity to all Qualifying Shareholders to subscribe for their proportional interests in the Company and participate in the long term business growth of Group; and (iv) all Qualifying Shareholders are free to choose to participate in the Open Offer and the dilution effect will not be prejudicial to the interests of the Qualifying Shareholders as long as they choose to subscribe for their full entitlements of the Offer Shares, we are of the view that the potential dilution effect of the Open Offer on the shareholding interests of the Independent Shareholders is acceptable.

### 6. Possible Financial Effects of the Open Offer

#### (a) *Net tangible assets*

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the consolidated net tangible assets of the Group attributable to owners of the Company was approximately HK\$448.13 million as at 30 June 2014. Based on the net proceeds of HK\$110.0 million raised from the Open Offer and assuming no other new Shares being issued or repurchased by the Company on or before the Record Date, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company will be approximately HK\$558.13 million if 229,238,583 Offer Shares are issued.

Immediately upon Completion of the Open Offer, the unaudited consolidated net tangible assets of the Group per share attributable to owners of the Company would decrease from HK\$1.95 to HK\$1.22 due to the issuance of 229,238,583 Offer Shares.

#### (b) *Working capital*

As set out in the 2014 Interim Report, the Group had bank and cash balances of approximately HK\$16.81 million and net current liabilities of approximately of HK\$20.58 million as at 30 June 2014. The Open Offer is expected to have a positive effect on the Group’s working capital immediately upon completion of the Open Offer as the estimated net proceeds from it will bring in approximately HK\$110.00 million to the Group and the Group would have bank and cash

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balances of approximately HK\$126.81 million and net current assets of HK\$89.42 million based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2014. Therefore, the Open Offer can help to strengthen the Group's liquidity position and help the Group to restore back to net current assets position.

(c) *Gearing*

As refer to the 2014 Interim Report, the Group's gearing ratio, which is expressed as a percentage of total liabilities of HK\$527.30 million over total assets of HK\$1,073.10 million, was approximately 49.14% as at 30 June 2014. Immediately upon completion of the Open Offer, the estimated net proceeds of HK\$110.0 million raised from the Open Offer, the gearing ratio of the Group would be lowered to approximately 44.57% based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2014. Therefore, the Open Offer will improve the Group's gearing and reduces the Group's indebtedness.

Based on the foregoing, the Open Offer would have overall positive financial effects on the Group and on such basis, we are of the view that the Open Offer is in the interests of the Company and the Shareholders as a whole.

It should be noted that the aforesaid analysis are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Open Offer.

### **7. Share Consolidation**

The Company proposed to implement a Share Consolidation, details of which are set out in the section headed "Proposed Share Consolidation" in the Board Letter.

We note that the Share Consolidation and the Open Offer are inter-conditional. We have discussed with the management of the Company regarding the reasons for the Share Consolidation and were advised that the Share Consolidation is to reorganise capital base of the Company so as to facilitate the Open Offer and it will also reduce transaction and handling costs of the Company in relation to the dealing in the Consolidated Shares and the Offer Shares, which will be beneficial to the Company.

In addition, the Directors consider that the Share Consolidation may attract more investors and extend the shareholders' base of the Company as the transaction cost as a proportion of the market value of each board lot upon the Share Consolidation will be lower than the market value of each existing board lot.

Given that (i) the implementation of the Share Consolidation (other than the necessary professional expenses to be incurred by the Company) will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of Shareholders as a whole; (ii) the Share Consolidation is an integral part of the Open Offer and (iii) the transaction and handling costs of the Company in relation to the dealing in the Consolidated Shares and the Offer Shares are expected to be reduced, we consider the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 8. Whitewash Waiver

Assuming that no Shareholder will take up any Offer Shares and no new Shares are issued or repurchased by the Company on or before the Record Date, the Underwriter will be called upon to subscribe for and take up all the underwritten Shares pursuant to its obligations under the Underwriting Agreement, the shareholding interest of Mr. Xu, the Underwriter, and parties acting in concert with any of them will increase to approximately 55.31% of the issued share capital of the Company as enlarged by the Offer Shares immediately upon completion of the Open Offer.

The acquisition of voting rights by the Underwriter under such circumstances will result in the Underwriter will be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it as a result of the underwriting obligation in accordance with the terms of the Underwriting Agreement under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders at the Open Offer EGM by way of poll.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code to waive the mandatory general offer obligation. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved by Independent Shareholders at the EGM, the Open Offer will not become unconditional and will not proceed.

As advised by the Directors, the Open Offer is crucial for the Company to raise capital in order to improve the financial position of the Group and the development of its existing business. Having considered that (i) the approval of the Whitewash Waiver at the EGM is one of the conditions precedent to implement the Open Offer; (ii) the terms of the Open Offer are fair and reasonable to the Company and the Independent Shareholders as a whole; and (iii) the success of the Open Offer will improve the overall financial position of the Group and (iv) the Company and the Shareholders will lose all the benefits that are expected to be brought by completion of the Open Offer; we are of the view that the approval of the Whitewash Waiver by the Independent Shareholders is in the interests of the Company and Independent Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Open Offer.

### RECOMMENDATION

Taking into account the above mentioned principal factors and reasons including, in particular:

- (i) the net proceeds from the Open Offer will ease the short term financial stress of the Group and provide the capital needed for development the Group's coal upgrading business and for the Group's general working capital;
- (ii) the Open Offer would be a preferred method of equity financing as compared with other alternative means of fund raising exercise available to the Company;
- (iii) the discount as represented by the Subscription Price to the closing price is within a market range of the Comparables and with a view to encourage the Qualifying Shareholders to participate in the Open Offer;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iv) the interests of all Qualifying Shareholders will not be prejudiced by the relatively low subscription price as compared to the Comparables so long as all Qualifying Shareholders are offered an equal opportunity to subscribe for the Offer Shares and maintain their respective pro rata shareholdings in the Company. The dilution effect from the Open Offer will only take place when the Qualifying Shareholders do not take up the Offer Shares ;
- (v) the terms of the Underwriting Agreement are fair and reasonable, in particular, the nil underwriting commission and nil excess application would lower the administrative costs of the Open Offer to the Company;
- (vi) the positive financial effects on the net tangible assets value and the liquidity position of the Group immediately following completion of the Open Offer; and
- (vii) the Open Offer will not proceed if the Whitewash Waiver is not obtained from the Executive or both the Whitewash Waiver and the Share Consolidation are not approved by the Independent Shareholders at the EGM. Under such circumstances, the Group and the Shareholders will not be able to enjoy the benefits arise out of the Open Offer,

we consider that the terms of the Share Consolidation, the Open Offer (including the absence of an excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholder, to vote in favour of the resolution(s) to approve the Share Consolidation, the Open Offer (including the absence of an excess application arrangement), the Underwriting Agreement and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Bridge Partners Capital Limited**

**Monica Lin**  
*Managing Director*

**1. FINANCIAL INFORMATION****(A) FINANCIAL SUMMARY FOR THREE YEARS ENDED 31 DECEMBER 2011, 2012 AND 2013 AND THE SIX MONTHS ENDED 30 JUNE 2014**

Financial information of the Group for each of the three years ended 31 December 2011, 2012 and 2013 were disclosed in the annual reports of the Company for the three years ended 31 December 2013 respectively. The annual report of the Company for the year ended 31 December 2011 (pages 24 to 70) is available on the website of the Stock Exchange (<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0424/LTN20120424300.pdf>) and the website of the Company (<http://202.66.146.82/listco/hk/deteam/annual/2011/ar2011.pdf>). The annual report of the Company for the year ended 31 December 2012 (pages 28 to 78) is available on the website of the Stock Exchange (<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0429/LTN20130429598.pdf>) and the website of the Company (<http://202.66.146.82/listco/hk/deteam/annual/2012/ar2012.pdf>). The annual report of the Company for the year ended 31 December 2013 (pages 29 to 80) is available on the website of the Stock Exchange (<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0428/LTN20140428390.pdf>) and the website of the Company (<http://202.66.146.82/listco/hk/deteam/annual/2013/ar2013.pdf>). Financial information of the Group for the six months ended 30 June 2014 were disclosed in the interim report of the Company for the six months ended 30 June 2014 (pages 3 to 13), which is available on both the website of the Stock Exchange (<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0905/LTN20140905660.pdf>) and the website of the Company (<http://202.66.146.82/listco/hk/deteam/interim/2014/intrep.pdf>).

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014 as extracted from the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013 and the interim report of the Company for the six months ended 30 June 2014.

## (a) Consolidated statement of profit or loss

	For the year ended 31 December			For the six months ended
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)
Revenue	494,496	430,506	286,149	153,396
Gross profit	68,865	76,007	44,862	38,997
Loss before tax	(22,401)	(74,486)	(35,376)	(4,946)
Income tax (expense)/credit	217	10,777	(32,827)	(3,595)
Loss for the year	(22,184)	(63,709)	(68,203)	(8,541)
Loss for the year attributable to:				
Owners of the Company	(2,292)	(25,385)	(35,114)	(6,312)
Non-controlling interests	(19,892)	(38,324)	(33,089)	(2,229)
	(22,184)	(63,709)	(68,203)	(8,541)
Loss per share				
Basic	HK\$(0.26) cents	HK\$(2.41) cents	HK\$(3.07) cents	HK\$(0.55) cents
Diluted	N/A	N/A	N/A	HK\$(0.55) cents
Dividend per share	HK\$0.50 cents	HK\$0.65 cents	N/A	N/A

**(b) Consolidated statement of financial position**

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
	(Audited)	(Audited)	(Audited)	(Unaudited)
Total assets	919,531	990,277	1,017,511	1,073,104
Total Liabilities	(311,236)	(394,437)	(461,943)	(527,299)
Net assets	<u>608,295</u>	<u>595,840</u>	<u>555,568</u>	<u>545,805</u>
Equity attributable to owner of the Company	<u>453,007</u>	<u>476,299</u>	<u>467,737</u>	<u>460,203</u>

**Opinion**

As stated in the annual reports for the three financial years ended 31 December 2011, 2012 and 2013, in the opinion of the Company's auditor, RSM Nelson Wheeler, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, 2012 and 2013 respectively, 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. Without qualifying their opinion, they draw attention to note 2 to the financial statements of the Company for the year ended 31 December 2013 which mention that the Group incurred a loss for the year of approximately HK\$68,203,000 for the year ended 31 December 2013 and as at 31 December 2013 the Group had net current liabilities of approximately HK\$26,536,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Save as disclosed above, the auditor's reports issued by the Company's auditor, RSM Nelson Wheeler, in respect of the Group's audited consolidated financial statements for each of the three financial years ended 31 December 2011, 2012 and 2013 did not contain any modified opinion or qualification.

Save as disclosed in the interim report of the Company for the six months ended 30 June 2014 that the Group recorded a approximately 10% drop in turnover to approximately HK\$153,396,000 for the six months ended 30 June 2014 as compared to the corresponding period in 2013 and incurred a net loss attributable to equity holders of the Company of approximately HK\$6,312,000 for the six months ended 30 June 2014 which was primarily due to (i) a 34.04% decrease in turnover attributable to the plastic woven bags and barrel segment and a 78.07% decrease in turnover of its low-rank coal upgrading services segment, mainly due to decreased customer orders; (ii) increase in raw materials cost and staff costs resulting in drop in gross profit margin for the plastic woven bags and barrel segment and also due to the loss incurred by the low-rank coal upgrading services segment during the six months ended 30 June 2014 as a result of increase in certain fixed costs; and save for the share-based payment of HK\$14,892,000 and impairment of property, plant and equipment of HK\$62,051,000 recorded during the year ended 31 December 2012, there were no items which were exceptional because of size, nature or incidence in respect of the consolidated income statement of the Group for the three years ended 31 December 2013 and the six months ended 30 June 2014.

**(B) UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2014****Condensed Consolidated Statement of Profit or Loss – unaudited  
For the six months ended 30 June 2014**

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	2	<b>153,396</b>	170,444
Cost of sales		<b>(114,399)</b>	(124,155)
<b>Gross profit</b>		<b>38,997</b>	46,289
Other income		<b>816</b>	418
Selling and distribution expenses		<b>(4,578)</b>	–
Administrative expenses		<b>(35,142)</b>	(29,452)
Other operating expenses		<b>(26)</b>	(10,544)
<b>Profit from operations</b>		<b>67</b>	6,711
Finance costs	3	<b>(5,013)</b>	(2,322)
<b>(Loss)/profit before tax</b>	5	<b>(4,946)</b>	4,389
Income tax expense	4	<b>(3,595)</b>	(9,546)
<b>Loss for the period</b>		<b>(8,541)</b>	(5,157)
<b>(Loss)/profit attributable to:</b>			
Equity holders of the Company		<b>(6,312)</b>	5,847
Non-controlling interests		<b>(2,229)</b>	(11,004)
		<b>(8,541)</b>	(5,157)
<b>(Loss)/earnings per share</b>	7		(restated)
Basic		<b>(0.55) cents</b>	0.51 cents
Diluted		<b>(0.55) cents</b>	0.50 cents

**Condensed Consolidated Statement of Comprehensive Income – unaudited**  
**For the six months ended 30 June 2014**

	<b>Six months ended 30 June</b>	
	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Loss for the period</b>	<b>(8,541)</b>	(5,157)
<b>Other comprehensive income:</b>		
<i>Items that will be reclassified to profit or loss:</i>		
Exchange difference arising on translating foreign operations	(1,222)	1,897
	<u>          </u>	<u>          </u>
<b>Total comprehensive income for the period</b>	<b>(9,763)</b>	(3,260)
	<u>          </u>	<u>          </u>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	(7,534)	7,744
Non-controlling interests	(2,229)	(11,004)
	<u>          </u>	<u>          </u>
	<b>(9,763)</b>	(3,260)
	<u>          </u>	<u>          </u>

**Condensed Consolidated Statement of Financial Position  
At 30 June 2014**

		As at <b>30 June 2014</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2013 <i>HK\$'000</i> <b>(Audited)</b>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>615,474</b>	641,806
Prepaid land lease payments		<b>2,740</b>	2,818
Investment properties		<b>8,750</b>	8,750
Intangible asset		<b>91,948</b>	93,930
Deferred tax assets		<b>41,897</b>	41,897
Goodwill		<b>2,907</b>	2,907
Deposits		<b>6,284</b>	4,379
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>770,000</b>	796,487
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		<b>74,300</b>	45,964
Prepaid land lease payments		<b>77</b>	77
Trade and bills receivables	9	<b>179,381</b>	138,572
Deposits, prepayments and other receivables		<b>24,477</b>	11,442
Restricted bank deposits		<b>8,058</b>	8,117
Bank and cash balances		<b>16,811</b>	16,852
		<hr/>	<hr/>
<b>Total current assets</b>		<b>303,104</b>	221,024
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade payables	10	<b>9,644</b>	14,206
Accrued charges and other payables		<b>297,910</b>	219,304
Due to non-controlling shareholders	11	<b>12,725</b>	8,798
Due to a director	12	<b>2,274</b>	1,636
Current tax liabilities		<b>1,127</b>	3,616
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>323,680</b>	247,560
		<hr/>	<hr/>
<b>Net current liabilities</b>		<b>(20,576)</b>	(26,536)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>749,424</b>	769,951
		<hr/> <hr/>	<hr/> <hr/>

		As at 30 June 2014 <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
<b>Non-current liabilities</b>			
Other payables		16,574	39,636
Due to non-controlling shareholders	11	39,624	77,547
Due to a director	12	33,400	–
Borrowings		99,957	85,136
Deferred tax liabilities		14,064	12,064
		<u>203,619</u>	<u>214,383</u>
<b>Total non-current liabilities</b>		<b>203,619</b>	<b>214,383</b>
<b>NET ASSETS</b>		<b>545,805</b>	<b>555,568</b>
<b>Equity</b>			
Share capital	13	114,619	114,619
Other reserves		408,173	390,170
Accumulated losses		(62,589)	(37,052)
		<u>460,203</u>	<u>467,737</u>
Equity attributable to equity holders of the Company		460,203	467,737
Non-controlling interests		85,602	87,831
		<u>545,805</u>	<u>555,568</u>
<b>TOTAL EQUITY</b>		<b>545,805</b>	<b>555,568</b>

**Condensed Consolidated Statement of Changes in Equity – unaudited**  
**For the six months ended 30 June 2014**

Movements in the share capital and reserves of the Group were as follows:–

	Share capital	Share premium	Capital reserve	Share option reserve	Warrants reserve	Foreign currency translation reserve	Future development fund	Safety fund	Accumulated losses	Attributable to equity holders of the Company	Non controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	114,619	283,228	(1,628)	14,892	820	67,061	11,996	13,801	(37,052)	467,737	87,831	555,568
Transfer of warrants reserve upon warrants expired	-	-	-	-	(820)	-	-	-	820	-	-	-
Transfer of share option reserve upon share option expired	-	-	-	(14,892)	-	-	-	-	14,892	-	-	-
Appropriations	-	-	-	-	-	-	10,514	8,711	(19,225)	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(1,222)	-	-	(6,312)	(7,534)	(2,229)	(9,763)
At 30 June 2014	<u>114,619</u>	<u>283,228</u>	<u>(1,628)</u>	<u>-</u>	<u>-</u>	<u>65,839</u>	<u>22,510</u>	<u>22,512</u>	<u>(46,877)</u>	<u>460,203</u>	<u>85,602</u>	<u>545,805</u>

	Share capital	Share premium	Capital reserve	Share option reserve	Warrants reserve	Foreign currency translation reserve	Future development fund	Safety fund	Accumulated losses	Proposed dividend	Attributable to equity holders of the Company	Non controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013	91,933	280,534	(1,628)	14,892	1,120	59,380	17,643	10,911	(4,695)	6,209	476,299	119,541	595,840
Exercise of warrants	3,583	21,497	-	-	-	-	-	-	-	-	25,080	-	25,080
Transfer to share premium upon exercise of warrants	-	358	-	-	(358)	-	-	-	-	-	-	-	-
Appropriations	-	-	-	-	-	-	2,980	4,704	(7,684)	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	1,897	-	-	5,847	-	7,744	(11,004)	(3,260)
At 30 June 2013	<u>95,516</u>	<u>302,389</u>	<u>(1,628)</u>	<u>14,892</u>	<u>762</u>	<u>61,277</u>	<u>20,623</u>	<u>15,615</u>	<u>(6,532)</u>	<u>6,209</u>	<u>509,123</u>	<u>108,537</u>	<u>617,660</u>

**Condensed Consolidated Statement of Cash Flows – unaudited**  
**For the six months ended 30 June 2014**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	<b>(2,726)</b>	63,014
Net cash outflow from investing activities	<b>(5,001)</b>	(52,983)
	<hr/>	<hr/>
Net cash (outflow)/inflow before financing activities	<b>(7,727)</b>	10,031
Net cash inflow from financing activities	<b>7,686</b>	25,080
	<hr/>	<hr/>
(Decrease)/Increase in cash and cash equivalents	<b>(41)</b>	35,111
Cash and cash equivalents at 1 January	<b>16,852</b>	34,538
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<b>16,811</b>	69,649
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Bank and cash balances	<b>16,811</b>	69,649
	<hr/> <hr/>	<hr/> <hr/>

**Notes:****1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited condensed consolidated financial statements for the six months ended 30 June 2014 (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure provisions of Appendix 16 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies and basis of preparation of the Interim Financial Statements are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2013.

**2. SEGMENT INFORMATION**

The Group has three reportable segments, namely plastic woven bags, coal trading and coal upgrading services. These segments are managed separately as each business offers different products and services.

**For the period ended 30 June 2014**

	<b>Bags</b> <i>HK\$'000</i> (unaudited)	<b>Coal</b> <i>HK\$'000</i> (unaudited)	<b>Coal</b> <b>Upgrading</b> <i>HK\$'000</i> (unaudited)	<b>Total</b> <i>HK\$'000</i> (unaudited)
<b>TURNOVER</b>	<b>76,020</b>	<b>73,416</b>	<b>3,960</b>	<b>153,396</b>
<b>Segment profit/(loss)</b>	<b>14,313</b>	<b>(4,052)</b>	<b>(6,222)</b>	<b>4,039</b>
Unallocated corporate income				375
Unallocated corporate expenses				(9,361)
Operation loss excluding interest income/expenses				(4,947)
Interest income				1
Interest expenses				-
Loss before taxation				<b>(4,946)</b>
As 30 June 2014 (unaudited)				
Segment assets	<b>266,028</b>	<b>673,578</b>	<b>138,932</b>	<b>1,078,538</b>
Segment liabilities	<b>31,813</b>	<b>333,832</b>	<b>72,091</b>	<b>437,736</b>

For the period ended 30 June 2013

	Bags <i>HK\$'000</i> (unaudited)	Coal <i>HK\$'000</i> (unaudited)	Coal Upgrading <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
<b>TURNOVER</b>	115,258	37,132	18,054	170,444
<b>Segment profit/(loss)</b>	31,952	(25,945)	1,649	7,656
Unallocated corporate income				375
Unallocated corporate expenses				(3,643)
Operation profit excluding interest income/expenses				4,388
Interest income				2
Interest expenses				(1)
Profit before taxation				4,389
At 30 June 2013 (unaudited)				
Segment assets	357,648	645,727	114,601	1,117,976
Segment liabilities	25,156	464,437	90,786	580,379

### 3. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on other loans-wholly repayable within five year	2,425	–
Interest on loan from a related company	–	372
Interest on loan from non-controlling shareholders	1,942	1,934
Interest on loan from a director	129	–
Bank charges	517	16
	<b>5,013</b>	<b>2,322</b>

### 4. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the six months ended 30 June 2014 (2013: HK\$Nil).

Taxes on profits assessable in the PRC have been provided at the applicable rates of tax in the PRC in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

## 5. (LOSS)/PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interest income	(21)	(418)
Amortisation of mining right	1,982	679
Allowance for doubtful debts	–	10,544
Cost of inventories sold	114,399	124,155
Depreciation of property, plant and equipment	29,428	21,293
Directors' emoluments	2,602	2,420
Government grant	(419)	–
Operating lease rentals in respect of land and buildings	2,116	1,280
	<b>2,116</b>	<b>1,280</b>

## 6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: HK\$Nil).

## 7. (LOSS)/EARNINGS PER SHARE

**Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share attributable to equity holders of the Company are based on the loss for the six months ended 30 June 2014 attributable to equity holders of the Company of HK\$6,312,000 (profit attributable to equity holders for the corresponding period in 2013: HK\$5,847,000) and the weighted average number of ordinary shares of 1,146,192,918 (2013 (restated): 1,146,192,918) in issue during the period.

The weight 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 11 October 2013.

**Diluted (loss)/earnings per share**

The effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2014.

Diluted earnings per share for the six months ended 30 June 2013 are calculated based on the Group's profit attributable to equity holders of the Company of HK\$5,847,000 and on the weighted average number of ordinary shares 1,180,606,711.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group had addition to property, plant and equipment of approximately HK\$5,225,000 (2013: HK\$52,983,000).

## 9. TRADE AND BILLS RECEIVABLES

As at 30 June 2014, the ageing analysis of trade receivables of approximately HK\$166,783,000 (2013: HK\$91,105,000), based on the invoice date and net of allowance, is as follows:

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Current to 90 days	66,807	59,683
91 to 180 days	54,695	29,425
181 to 365 days	43,580	564
Over 365 days	1,701	1,433
	<u>166,783</u>	<u>91,105</u>

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

## 10. TRADE PAYABLES

As at 30 June 2014, the ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Current to 90 days	6,975	7,561
91 to 180 days	1,095	592
181 to 270 days	733	261
271 to 365 days	2	34
Over 365 days	839	5,758
	<u>9,644</u>	<u>14,206</u>

## 11. DUE TO NON-CONTROLLING SHAREHOLDERS

The analysis of the carrying amount of the amounts due to non-controlling shareholders, are as follow:

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>Current liabilities</b>		
Advances ( <i>note a</i> )	2,540	5,673
Other payables ( <i>note b</i> )	10,185	3,125
	<u>12,725</u>	<u>8,798</u>
<b>Non-current liabilities</b>		
Loans ( <i>note c</i> )	39,624	77,547
	<u>52,349</u>	<u>86,345</u>

Notes:

- (a) The advances are unsecured, interest-free and repayable on demand.
- (b) As at 30 June 2014, other payables of approximately HK\$10,185,000 (2013: 3,125,000) are unsecured, interest-free and repayable at normal business term.
- (c) The loans from non-controlling shareholders are unsecured, bear interest at 0% – 10.2% per annum and repayable in 2015.

## 12. DUE TO A DIRECTOR

	<b>30 June 2014 HK\$'000 (unaudited)</b>	31 December 2013 HK\$'000 (audited)
<b>Current liabilities</b>		
Other payables ( <i>note a</i> )	2,274	1,636
<b>Non-current liabilities</b>		
Loans ( <i>note b</i> )	33,400	–
	<u>35,674</u>	<u>1,636</u>

Notes:

- a) The payables are unsecured, interest-free and repayable on demand.
- b) The loans from a Director are unsecured, bear interest at 0% – 5% per annum and repayable in 2015 and 2016.

## 13. SHARE CAPITAL

	<b>Authorised Ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
As at 31 December 2013 (audited) and 30 June 2014 (unaudited)	10,000,000,000	1,000,000
	<u>10,000,000,000</u>	<u>1,000,000</u>
	<b>Issued and fully paid Ordinary shares of HK\$0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
As at 31 December 2013 (audited)	1,146,192,918	114,619
	<u>1,146,192,918</u>	<u>114,619</u>
As at 30 June 2014 (unaudited)	1,146,192,918	114,619
	<u>1,146,192,918</u>	<u>114,619</u>

## (C) AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2013

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2013*

	<i>Notes</i>	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
<b>Turnover</b>	7	286,149	430,506
Cost of sales		<u>(241,287)</u>	<u>(354,499)</u>
<b>Gross profit</b>		44,862	76,007
Other income	8	6,800	2,523
Selling and distribution expenses		(3,224)	(17,414)
Administrative expenses		(67,192)	(51,212)
Share-based payments		–	(14,892)
Impairment of property, plant and equipment	17(b)	–	(62,051)
Other operating expenses		<u>(11,825)</u>	<u>(3)</u>
<b>Loss from operations</b>		(30,579)	(67,042)
Finance costs	10	<u>(4,797)</u>	<u>(7,444)</u>
<b>Loss before tax</b>		(35,376)	(74,486)
Income tax (expense)/credit	11	<u>(32,827)</u>	<u>10,777</u>
<b>Loss for the year</b>	12	<u><u>(68,203)</u></u>	<u><u>(63,709)</u></u>
<b>Attributable to:</b>			
Owners of the Company		(35,114)	(25,385)
Non-controlling interests		<u>(33,089)</u>	<u>(38,324)</u>
		<u><u>(68,203)</u></u>	<u><u>(63,709)</u></u>
<b>Loss per share</b>	16		(Restated)
– Basic		<u><u>HK(3.07) cents</u></u>	<u><u>HK(2.41) cents</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME***For the year ended 31 December 2013*

	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
<b>Loss for the year</b>	(68,203)	(63,709)
<b>Other comprehensive income:</b>		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	9,060	9,155
<b>Other comprehensive income for the year, net of tax</b>	9,060	9,155
<b>Total comprehensive income for the year</b>	(59,143)	(54,554)
<b>Attributable to:</b>		
Owners of the Company	(27,433)	(18,143)
Non-controlling interests	(31,710)	(36,411)
	(59,143)	(54,554)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	<i>Notes</i>	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	17	641,806	557,407
Prepaid land lease payments	18	2,818	2,859
Investment properties	19	8,750	–
Intangible asset	20	93,930	93,292
Deferred tax assets	31	41,897	57,071
Goodwill	21	2,907	2,907
Deposits		4,379	–
		<hr/>	<hr/>
		796,487	713,536
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	22	45,964	67,682
Prepaid land lease payments	18	77	66
Trade and bill receivables	23	138,572	129,145
Deposits, prepayments and other receivables		11,442	36,511
Current tax assets		–	837
Restricted bank deposits	24	8,117	7,962
Bank and cash balances	25	16,852	34,538
		<hr/>	<hr/>
		221,024	276,741
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current liabilities</b>			
Trade payables	26	14,206	26,594
Accrued charges and other payables		219,304	263,118
Due to non-controlling shareholders	28	8,798	5,940
Due to a director	29	1,636	76
Current tax liabilities		3,616	8,120
		<hr/>	<hr/>
		247,560	303,848
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net current liabilities</b>		<hr/> <b>(26,536)</b> <hr/>	<hr/> <b>(27,107)</b> <hr/>
<b>Total assets less current liabilities</b>		<hr/> <b>769,951</b> <hr/>	<hr/> <b>686,429</b> <hr/>

		<b>2013</b>	<b>2012</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current liabilities</b>			
Other payables	27	39,636	–
Due to non-controlling shareholders	28	77,547	60,730
Borrowings	30	85,136	20,373
Deferred tax liabilities	31	12,064	9,486
		<hr/>	<hr/>
		214,383	90,589
		<hr/>	<hr/>
<b>Net assets</b>		<b>555,568</b>	<b>595,840</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Share capital	32	114,619	91,933
Other reserves	36(a)	390,170	382,852
Accumulated losses		(37,052)	(4,695)
Proposed final dividend	15	–	6,209
		<hr/>	<hr/>
Equity attributable to owners of the Company		467,737	476,299
Non-controlling interests		87,831	119,541
		<hr/>	<hr/>
<b>Total equity</b>		<b>555,568</b>	<b>595,840</b>
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Attributable to owners of the Company						
		Share	Other	Retained	Proposed	Non-controlling		Total
		capital	reserves	(Accumulated	final	Total	interests	equity
Notes		HK\$'000	HK\$'000	losses)	dividend	HK\$'000	HK\$'000	HK\$'000
				HK\$'000	HK\$'000			
	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	32(a) 14,638	(14,638)	-	-	-	-	-
	Share-based payments	-	14,892	-	-	14,892	-	14,892
	Issue of warrants	34(a) -	1,464	-	-	1,464	-	1,464
	Exercise of warrants	32(b) 4,105	24,633	-	-	28,738	-	28,738
	Acquisition of subsidiaries	-	-	-	-	-	664	664
	Net Appropriations	-	13,655	(13,655)	-	-	-	-
	Dividend paid – 2011							
	final dividend	-	-	-	(3,659)	(3,659)	-	(3,659)
	2012 proposed final dividend	15 -	(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
	At 1 January 2013	91,933	382,852	(4,695)	6,209	476,299	119,541	595,840
	Total comprehensive							
	income for the year	-	7,681	(35,114)	-	(27,433)	(31,710)	(59,143)
	Exercise of warrants	32(c) 3,583	21,497	-	-	25,080	-	25,080
	Issue of bonus shares	32(d) 19,103	(19,103)	-	-	-	-	-
	Net Appropriations	-	(2,757)	2,757	-	-	-	-
	Dividend paid – 2012							
	final dividend	-	-	-	(6,209)	(6,209)	-	(6,209)
	Changes in equity for the year	22,686	7,318	(32,357)	(6,209)	(8,562)	(31,710)	(40,272)
	At 31 December 2013	114,619	390,170	(37,052)	-	467,737	87,831	555,568

**CONSOLIDATED STATEMENT OF CASH FLOWS***For the year ended 31 December 2013*

	<b>2013</b>	<b>2012</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	(35,376)	(74,486)
Adjustments for:		
Interest income	(115)	(180)
Finance costs	4,797	7,444
Depreciation and amortisation	46,481	39,742
Fair value gains on recognition of financial liabilities	(4,938)	–
Impairment of property, plant and equipment	–	62,051
Allowance for trade receivables	11,048	–
Allowance for inventories	–	2,371
Loss/(gain) on disposals of property, plant and equipment	259	(160)
Share-based payments	–	14,892
	<hr/>	<hr/>
Operating profit before working capital changes	22,156	51,674
Decrease in inventories	21,718	5,603
Decrease/(increase) in trade and bill receivables	3,363	(34,833)
(Increase)/decrease in deposits, prepayments and other receivables	(3,148)	22,643
(Increase)/decrease in restricted bank deposits	(155)	4,148
(Decrease)/increase in trade payables	(12,388)	19,312
Increase in accrued charges and other payables	146	4,605
Increase/(decrease) in amounts due to non-controlling shareholders	20,393	(2,997)
Increase in amounts due to directors	1,560	76
	<hr/>	<hr/>
Cash generated from operations	53,645	70,231
Income taxes paid	(16,876)	(17,308)
Withholding tax paid	(1,262)	–
Interest paid	(3,666)	(3,481)
Bank charges paid	(116)	(622)
	<hr/>	<hr/>
Net cash generated from operating activities	31,725	48,820
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of subsidiaries	–	390
Purchase of property, plant and equipment	(125,322)	(28,807)
Purchase of investment properties	(9,131)	–
Proceeds from disposals of property, plant and equipment	5,305	17
Interest received	115	180
	<hr/>	<hr/>
Net cash used in investing activities	(129,033)	(28,220)
	-----	-----

	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Bank loans raised	–	18,450
Repayment of bank loans	–	(52,349)
Other loans raised	81,428	–
Repayment of other loans	(18,750)	(11,070)
Issue of warrants	–	1,464
Proceeds from issue of shares	25,080	28,738
Dividends paid to owners of the Company	(6,209)	(3,659)
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	81,549	(18,426)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	(15,759)	2,174
Effect of foreign exchange rate changes	(1,927)	(853)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		
	34,538	33,217
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		
	16,852	34,538
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	16,852	34,538
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

**NOTES TO THE FINANCIAL STATEMENTS***For the year ended 31 December 2013***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. GOING CONCERN BASIS**

The Group incurred a loss for the year of approximately HK\$68,203,000 (2012: HK\$63,709,000) for the year ended 31 December 2013 and as at 31 December 2013 the Group had net current liabilities of approximately HK\$26,536,000 (2012: HK\$27,107,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and positive cash flows from operations in the immediate and longer terms. In order to strengthen the Group's capital base and liquidity in the foreseeable future, the directors of the Company have taken the following measures:

- the Group entered into a loan agreement for approximately HK\$25,400,000 with Mr. Xu Bin, a director and a substantial shareholder of the Company, for a period from 24 March 2014 to 31 October 2015 and the aforesaid loan amount was received by the Group on 27 March 2014;
- Mr. Xu Bin has agreed not to demand for repayment of the above-mentioned loan and the advance due to a director as at 31 December 2013 of approximately HK\$1,636,000 until such time as the Group has sufficient funds to repay its other financial obligations, the loans and advances;
- the Group has implemented new production and sales strategies to enhance its turnover and profit;
- the Group has entered into agreements with its major constructors of underground coal mine to extend the repayment periods for one to three years in regarding to the other payables of approximately HK\$39,636,000; and
- the Group has entered into agreements to dispose of its investment properties for a cash consideration of approximately HK\$8,828,000 and a deposit of approximately HK\$4,550,000 was received by the Group on 17 March 2014.

The directors of the Company have taken into account the cash requirements of the Group for the next twelve months from the end of the reporting period and the above measures, directors have concluded that the Group will have sufficient working capital to meet in full its financial obligations as they fall due and accordingly the consolidated financial statements have been prepared on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets and to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

### 3. 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 2013. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years except as stated below.

#### **Amendments to HKAS 1 “Presentation of Financial Statements”**

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement that has been applied by the Group. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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.

### 4. 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 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 5 to the financial statements.

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

#### **(a) Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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 statement of profit or loss and consolidated statement of profit or loss and other 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.

**(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 (x) 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.

(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 for the period (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 other comprehensive income and accumulated 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 other comprehensive income and accumulated 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.

**(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 appropriate 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 methods 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) Investment properties**

Investment properties are buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 20 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

**(f) 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.

**(g) 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.

**(h) Inventories**

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

**(i) Recognition and derecognition of financial instruments**

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

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

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

**(j) 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.

**(k) 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.

**(l) 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.

**(m) 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.

**(n) 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.

**(o) Equity instruments**

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

**(p) 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.

**(q) 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.

Revenue 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.

**(r) 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 at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring cost and involves the payment of termination benefits.

(s) **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.

(t) **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.

(u) **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.

(v) **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.

**(w) 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 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).

**(x) 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

**(y) 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.

**(z) 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.

**5. 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) Going concern basis**

These financial statements have been prepared on a going concern basis, the validity of which depends upon the ability of the Group to attain profitable and positive cash flows from operations in the immediate and longer terms, and the financial support of the substantial shareholder at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to financial statements.

**(b) Legal titles of certain buildings**

As stated in Note 17(a) to the financial statements, the legal titles of certain buildings were not yet obtained as at 31 December 2013. 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.

**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.

**(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\$93,930,000 (Note 20).

(e) **Impairment loss for bad and doubtful debts**

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

(f) **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.

**6. 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 monitors 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 bill 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 80% (2012: 76%) of the turnover for the year and shared over 96% (2012: 74%) 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.

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

2013					
Maturity Analysis – Undiscounted cash outflows					
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash outflows
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	–	14,206	–	–	14,206
Accrued charges and other payables	–	177,219	38,799	4,851	220,869
Due to non-controlling shareholders	5,673	3,125	84,590	–	93,388
Other loans	–	–	77,744	16,810	94,554
Due to a director	1,636	–	–	–	1,636
	<u>7,309</u>	<u>194,550</u>	<u>201,133</u>	<u>21,661</u>	<u>424,653</u>

2012					
Maturity Analysis – Undiscounted cash outflows					
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash outflows
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 a director	76	–	–	–	76
	<u>4,005</u>	<u>295,548</u>	<u>84,707</u>	<u>–</u>	<u>384,260</u>

**(d) Interest rate risk**

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

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**

	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
Financial assets:		
Loans and receivables (including cash and cash equivalents)	169,952	187,681
Financial liabilities:		
Financial liabilities at amortised cost	404,179	376,831
	<u>404,179</u>	<u>376,831</u>

**(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.

**7. TURNOVER**

The Group's turnover represents revenue from the followings:

	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
Sales of bags and barrels	203,015	254,114
Sales of coal	56,297	168,151
Coal upgrading income	26,837	8,241
	<u>286,149</u>	<u>430,506</u>

## 8. OTHER INCOME

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest income	115	180
Gain on disposals of property, plant and equipment	–	160
Government grant ( <i>note</i> )	800	1,771
Consultancy service income	750	375
Fair value adjustment upon initial recognition of financial liabilities	4,938	–
Rental income	75	–
Sundry income	122	37
	<u>6,800</u>	<u>2,523</u>

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

## 9. 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 4 to the financial statements. Segment profit or loss represents the profit earned by each segment without allocation of corporate income and expense and central administration costs. Segment assets excluded goodwill, corporate assets and deferred tax assets. Segment liabilities excluded corporate liabilities and deferred tax liabilities.

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

	Bags HK\$'000	Coal HK\$'000	Coal upgrading HK\$'000	Total HK\$'000
<b>Year ended 31 December 2013</b>				
Revenue from external customers	203,015	56,297	26,837	286,149
Segment profit/(loss)	26,227	(74,786)	793	(47,766)
Interest revenue	64	33	11	108
Interest expense	117	3,793	–	3,910
Income tax expense	15,180	16,130	1,517	32,827
Depreciation and amortisation	7,534	35,235	3,168	45,937
Loss/(gain) on disposals of property, plant and equipment	318	(59)	–	259
Allowance for trade receivables	2,000	9,048	–	11,048
Capital expenditure	31,323	1,550	98,048	130,921
<b>At 31 December 2013</b>				
Segment assets	360,744	647,303	153,411	1,161,458
Segment liabilities	28,288	499,662	110,381	638,331
<b>Year ended 31 December 2012</b>				
Revenue from external customers	254,114	168,151	8,241	430,506
Segment profit/(loss)	51,790	(88,926)	649	(36,487)
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
<b>At 31 December 2012</b>				
Segment assets	335,745	715,765	34,612	1,086,122
Segment liabilities	26,749	509,090	30,552	566,391

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>Revenue</b>	286,149	430,506
<b>Profit or loss</b>		
Total loss of reportable segments	(47,766)	(36,487)
Unallocated corporate income	4,314	387
Unallocated corporate expenses	(24,751)	(27,609)
Consolidated loss for the year	(68,203)	(63,709)
<b>Assets</b>		
Total assets of reportable segments	1,161,458	1,086,122
Corporate assets	13,925	30,756
Deferred tax assets	41,897	57,071
Goodwill	2,907	2,907
Elimination of intersegment assets	(202,676)	(186,579)
Consolidated total assets	1,017,511	990,277
<b>Liabilities</b>		
Total liabilities of reportable segments	638,331	566,391
Corporate liabilities	61,018	12,978
Deferred tax liabilities	12,064	9,486
Elimination of intersegment liabilities	(249,470)	(194,418)
Consolidated total liabilities	461,943	394,437

## Geographical information:

	Revenue		Non-current assets	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Hong Kong	–	–	2,969	76
The PRC except Hong Kong	286,149	430,506	748,714	653,482
Consolidated total	286,149	430,506	751,683	653,558

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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Bags segment		
Customer a	203,015	254,114
Coal segment		
Customer a	–	62,747
Coal upgrading segment		
Customer a	26,837	8,241
	<u>26,837</u>	<u>8,241</u>

## 10. FINANCE COSTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest on bank loans and overdrafts	–	1,328
Interest on other loans – wholly repayable within five years	373	719
Interest on loan from a related company	372	735
Interest on loan from a director	–	61
Interest on loan from a non-controlling shareholder	3,666	3,979
Imputed interest expenses	270	–
Bank charges	116	622
	<u>4,797</u>	<u>7,444</u>

## 11. INCOME TAX EXPENSE/(CREDIT)

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current tax – Overseas		
Provision for the year	12,816	18,710
Under-provision in prior year	337	72
	<u>13,153</u>	<u>18,782</u>
Deferred tax ( <i>Note 31</i> )	19,674	(29,559)
	<u>32,827</u>	<u>(10,777)</u>

- (a) No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2013 as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: HK\$Nil).

Tax on profits assessable in the PRC have been provided at the applicable rates of tax in the PRC in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

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

	<b>2013</b>	<b>2012</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax	(35,376)	(74,486)
Tax at the PRC enterprise income tax rate of 25% (2012: 25%)	(8,844)	(18,621)
Expenses not deductible for tax purposes	3,923	4,266
Income not taxable	–	(3)
Tax effect of temporary differences not recognised	(1,060)	179
Tax effect of tax loss not recognised	33,121	338
Effect of different tax rates	1,510	2,203
Deferred tax on undistributed earnings of the PRC subsidiaries	3,840	789
Under-provision in prior year	337	72
Income tax expense/(credit)	<u>32,827</u>	<u>(10,777)</u>

## 12. LOSS FOR THE YEAR

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

	<b>2013</b>	<b>2012</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditor's remuneration	850	800
Allowance for inventories (included in cost of inventories sold)	–	2,371
Amortisation of mining right	841	1,383
Cost of inventories sold	241,287	354,499
Depreciation of property, plant and equipment and investment properties	45,564	38,294
Impairment of property, plant and equipment	–	62,051
Allowance for trade receivables (Included in other operating expenses)	11,048	–
Loss/(gain) on disposals of property, plant and equipment	259	(160)
Operating lease rentals in respect of buildings	3,112	1,634
Rental income	(75)	–
	<u>62,144</u>	<u>53,677</u>

Cost of inventories sold includes staff costs, allowance for inventories, operating lease rentals, amortisation of mining right and depreciation of approximately HK\$77,075,000 (2012: HK\$70,796,000) which are included in the amounts disclosed separately.

## 13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>2013</b>	<b>2012</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages and salaries	57,508	49,751
Retirement benefits scheme contributions	4,636	3,926
	<u>62,144</u>	<u>53,677</u>

## 14. 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. Xu Bin	-	1,980	-	15	-	1,995
Mr. Mak Shiu Chung, Godfrey	-	1,980	-	15	-	1,995
Mr. Zhang Fusheng (note (a))	-	523	-	25	-	548
Mr. Zhang Chao Liang (note (b))	3	-	-	-	-	3
Mr. Wang Hon Chen	192	152	-	-	-	344
Mr. Kwok Chi Shing	150	-	-	-	-	150
Mr. Tsang Wai Sum	150	-	-	-	-	150
Mr. Huang Shao Ru (note (c))	90	-	-	-	-	90
Mr. Yu Yang (note (d))	72	-	-	-	-	72
<b>Total for 2013</b>	<b>657</b>	<b>4,635</b>	<b>-</b>	<b>55</b>	<b>-</b>	<b>5,347</b>
Mr. Xu Bin	-	1,800	-	14	-	1,814
Mr. Mak Shiu Chung, Godfrey	-	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
<b>Total for 2012</b>	<b>581</b>	<b>3,738</b>	<b>-</b>	<b>37</b>	<b>-</b>	<b>4,356</b>

Notes:

- (a) Appointed on 28 June 2013
- (b) Resigned on 28 June 2013
- (c) Appointed on 2 April 2013
- (d) Retired on 19 June 2013

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 2012 and 2013.

**(b) Five highest paid individuals**

The five highest paid individuals in the Group during the year included three (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2012: two) individuals are set out below:

	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
Basic salaries and allowances	1,272	1,090
Retirement benefits scheme contributions	30	23
	<u>1,302</u>	<u>1,113</u>

The emoluments of these two (2012: 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.

**15. DIVIDENDS**

	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
Final dividend proposed of HK Nil (2012: HK0.65 cent) per ordinary share	<u>–</u>	<u>6,209</u>

**16. 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\$35,114,000 (2012: HK\$25,385,000) and the weighted average number of ordinary shares of 1,145,395,799 (2012 (restated): 1,055,400,727) 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 11 October 2013. Details of the bonus issue are set out in Note 32(d).

**Diluted loss per share**

The effect of all potential ordinary shares are anti-dilutive for the years ended 31 December 2013 and 2012.

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold		Mining structures	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	Buildings	improvements						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>								
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
At 1 January 2013	190,918	880	208,806	257,657	61,077	11,590	4,835	735,763
Additions	1,364	2,115	-	22,262	1,513	269	97,799	125,322
Disposals	(6,191)	-	-	-	(128)	(3,802)	-	(10,121)
Reclassification	22,559	-	(17,078)	21,154	(26,555)	(80)	-	-
Transfer	-	-	-	9,887	31	-	(9,918)	-
Exchange differences	3,338	12	3,068	4,974	551	128	1,483	13,554
At 31 December 2013	211,988	3,007	194,796	315,934	36,489	8,105	94,199	864,518
<b>Accumulated depreciation and impairment</b>								
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
At 1 January 2013	31,455	252	56,119	69,781	15,349	5,400	-	178,356
Charge for the year	9,443	363	1,182	26,356	5,983	1,717	-	45,044
Disposals	(883)	-	-	-	(110)	(3,190)	-	(4,183)
Reclassification	3,280	-	2,898	1,041	(7,199)	(20)	-	-
Exchange differences	693	2	963	1,555	220	62	-	3,495
At 31 December 2013	43,988	617	61,162	98,733	14,243	3,969	-	222,712
<b>Carrying amount</b>								
At 31 December 2013	168,000	2,390	133,634	217,201	22,246	4,136	94,199	641,806
At 31 December 2012	159,463	628	152,687	187,876	45,728	6,190	4,835	557,407

- (a) At 31 December 2013, the carrying amount of certain buildings amounted to HK\$64,023,186 (2012: HK\$68,805,000) 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 that year.

#### 18. PREPAID LAND LEASE PAYMENTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
At 1 January	2,925	2,944
Amortisation for the year	(76)	(65)
Exchange differences	46	46
	<hr/>	<hr/>
At 31 December	2,895	2,925
Current portion	(77)	(66)
	<hr/>	<hr/>
Non-current portion	<u>2,818</u>	<u>2,859</u>

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

#### 19. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
Cost	
At 1 January 2013	–
Additions	9,131
Exchange differences	146
	<hr/>
At 31 December 2013	<u>9,277</u>
Accumulated depreciation	
At 1 January 2013	–
Charge for the year	520
Exchange differences	7
	<hr/>
At 31 December 2013	<u>527</u>
Carrying amount	
At 31 December 2013	<u>8,750</u>

The Group's investment properties are situated outside Hong Kong under long leases.

At 31 December 2013, the fair value of the Group's investment properties was approximately of HK\$8,828,000. The directors use the market comparable approach to assess the fair value of the investment properties. The market comparable approach is based on market evidence of recent transactions for similar properties and adjusted to reflect the conditions and locations of the subject properties.

## 20. INTANGIBLE ASSET

	Mining right	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost		
At 1 January	97,500	95,940
Exchange differences	1,560	1,560
	<u>99,060</u>	<u>97,500</u>
At 31 December	<u><u>99,060</u></u>	<u><u>97,500</u></u>
Accumulated amortisation		
At 1 January	4,208	2,757
Amortisation for the year	841	1,383
Exchange differences	81	68
	<u>5,130</u>	<u>4,208</u>
At 31 December	<u><u>5,130</u></u>	<u><u>4,208</u></u>
Carrying amount		
At 31 December	<u><u>93,930</u></u>	<u><u>93,292</u></u>

The mining right represents the purchase cost of the exclusive right for certain volume of underground coal at Inner Mongolia Mine 958 (the "Mine") which expires on 4 July 2037.

## 21. GOODWILL

	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost		
At 1 January	2,907	–
Arising on acquisition of subsidiaries	–	2,907
	<u>2,907</u>	<u>2,907</u>
At 31 December	<u><u>2,907</u></u>	<u><u>2,907</u></u>

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 on the basis of its value in use. The key assumptions for the discounted cash flow method are those regarding the discount rate, inflation rate and budgeted turnover during the period. The Group estimates discount rate using pre-tax rate that reflect current market assessment 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% (2012: 3%). This rate does not exceed the average inflation rate for the relevant markets.

The pre-tax rate used to discount the forecast cash flows from the Group's coal upgrading income is 14.5% (2012: 25%).

## 22. INVENTORIES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Raw materials	27,498	42,539
Work in progress	4,826	10,011
Finished goods	13,640	15,132
	<u>45,964</u>	<u>67,682</u>

## 23. TRADE AND BILL RECEIVABLES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade receivables	116,734	129,145
Allowance for trade receivables	(2,000)	–
	<u>114,734</u>	<u>129,145</u>
Bill receivables	23,838	–
	<u>138,572</u>	<u>129,145</u>

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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 to 90 days	83,312	77,782
91 to 180 days	29,425	18,752
181 to 365 days	564	31,445
Over 365 days	1,433	1,166
	<u>114,734</u>	<u>129,145</u>

Reconciliation of allowance for trade receivables:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
At 1 January	–	–
Allowance for the year	11,048	–
Amounts written off	(9,048)	–
	<u>2,000</u>	<u>–</u>

As of 31 December 2013, trade receivables of approximately HK\$91,105,000 (2012: HK\$95,431,000) 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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Up to 90 days	59,683	44,068
91 to 180 days	29,425	18,752
181 to 365 days	564	31,445
Over 365 days	1,433	1,166
	<u>91,105</u>	<u>95,431</u>

Subsequent to 31 December 2013, the Group received cash settlement amount of approximately HK\$48 million (2012: HK\$76 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").

#### 24. RESTRICTED BANK DEPOSITS

The Group's restricted bank deposits of approximately HK\$8,117,000 (2012: HK\$7,962,000) are the deposits kept for the coal mining business, which are required by related coal mining regulation in the PRC. The aforesaid deposits are in RMB and at market interest rate.

#### 25. BANK AND CASH BALANCES

At 31 December 2013, the Group's bank and cash balances denominated in RMB and kept in the PRC amounted to approximately HK\$16,321,000 (2012: HK\$10,520,000). 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.

#### 26. TRADE PAYABLES

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 to 90 days	7,561	7,906
91 to 180 days	592	12,909
181 to 270 days	261	–
271 to 365 days	34	5,686
Over 365 days	5,758	93
	<u>14,206</u>	<u>26,594</u>

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

## 27. OTHER PAYABLES

At 31 December 2013, amounts due to various coal mine constructors of approximately HK\$39,636,000 (2012: HK\$43,650,000), which are unsecured, non-interest bearing and with terms of due for repayment within two to three years (2012: repayable on demand), are shown under the non-current liabilities (2012: included in the accrual charges and other payables under the current liabilities) in the consolidated statement of financial position.

This non-current portion of the other payables is carried at amortised cost using an effective interest rate of 6.15% per annum. In current year, the Group recognised the fair value adjustment upon the initial recognition of such other payables in the profit or loss.

## 28. DUE TO NON-CONTROLLING SHAREHOLDERS

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

	<i>Notes</i>	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
<b>Current liabilities</b>			
Advances	(a)	5,673	3,929
Other payables	(b)	3,125	2,011
		<u>8,798</u>	<u>5,940</u>
		-----	-----
<b>Non-current liabilities</b>			
Loans	(c)	77,547	47,507
Other payables	(b)	-	13,223
		<u>77,547</u>	<u>60,730</u>
		-----	-----
		<u>86,345</u>	<u>66,670</u>
		=====	=====

*Notes:*

- (a) The advances are unsecured, interest-free and repayable on demand.
- (b) At 31 December 2013, other payables of approximately HK\$3,125,000 (2012: HK\$2,011,000) are unsecured, interest-free and repayable at normal business term. At 31 December 2012, other payables of approximately HK\$13,223,000 was unsecured and interest-free. It was repayable on 31 August 2014, and shown under non-current liabilities. The amount was fully repaid during the year.

- (c) Loans from non-controlling shareholders are repayable after one year and included in non-current liabilities. Details of the loans are set out as below:

Repayable on:	Interest rate	Security	2013 HK\$'000	2012 HK\$'000
16 August 2015 (2012: 31 August 2014)	10.2% p.a. (2012: 10.2% p.a.)	Nil	40,084	37,500
2 July 2015	Nil	Nil	23,687	–
30 November 2015 (2012: 31 March 2014)	Nil	Nil	4,485	5,000
20 June 2015 (2012: 30 June 2014)	Nil	Nil	9,291	5,007
			<u>77,547</u>	<u>47,507</u>

The loans from non-controlling shareholders are recognised based on the effective interest method with an effective interest rate of 6.15% per annum. The principle amounts of these non-current loans are approximately HK\$78,276,000.

The carrying amounts are wholly denominated in RMB.

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

	2013 HK\$'000	2012 HK\$'000
Advances	5,673	3,929
Others	3,125	13,983
Loans	76,934	48,940
	<u>85,732</u>	<u>66,852</u>

## 29. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

## 30. BORROWINGS

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

	2013 HK\$'000	2012 HK\$'000
<b>Non-current liabilities</b>		
Other loans	85,136	6,250
Loan from a related company	–	14,123
	<u>85,136</u>	<u>20,373</u>

The borrowings are repayable as follows:

In the second year	70,030	20,373
In the third to fifth years, inclusive	15,106	–
	<u>85,136</u>	<u>20,373</u>

The carrying amounts of the Group's borrowings are denominated in RMB.

The average interest rates at 31 December were as follows:

	2013	2012
Other loans	5.5%	–
Loan from a related company	–	6.0%
	<u>          </u>	<u>          </u>

The other loans 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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Other loans	84,892	5,802
Loan from a related company	–	14,091
	<u>          </u>	<u>          </u>
	<u>84,892</u>	<u>19,893</u>

### 31. DEFERRED TAX

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

	Decelerated tax depreciation <i>HK\$'000</i>	Future deductible expenses <i>HK\$'000</i>	Tax loss <i>HK\$'000</i>	Undistributed earnings of the PRC subsidiaries <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2012	7,722	18,088	–	(9,321)	16,489
Credit/(charge) to profit or loss for the year ( <i>note 11</i> )	(1,691)	32,039	–	(789)	29,559
Withholding tax paid	–	–	–	624	624
Exchange differences	98	815	–	–	913
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2012 and 1 January 2013	6,129	50,942	–	(9,486)	47,585
Credit/(charge) to profit or loss for the year ( <i>note 11</i> )	8,957	(50,568)	25,777	(3,840)	(19,674)
Withholding tax paid	–	–	–	1,262	1,262
Exchange differences	241	5	414	–	660
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2013	<u>15,327</u>	<u>379</u>	<u>26,191</u>	<u>(12,064)</u>	<u>29,833</u>

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Deferred tax assets	41,897	57,071
Deferred tax liabilities	(12,064)	(9,486)
	<u>29,833</u>	<u>47,585</u>

At the end of the reporting period the Group has unused tax losses of approximately HK\$236,055,000 (2012: HK\$Nil) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$104,761,000 (2012: HK\$Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$131,294,000 (2012: HK\$Nil) due to the unpredictability of future profit streams. The tax losses will expire in 2018.

### 32. SHARE CAPITAL

	<i>Notes</i>	<b>Authorised</b> <b>Ordinary shares of HK\$0.10 each</b>	
		<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2012, 31 December 2012 and 31 December 2013		<u>10,000,000,000</u>	<u>1,000,000</u>
		<b>Issued and fully paid</b> <b>Ordinary shares of HK\$0.10 each</b>	
		<i>No. of shares</i>	<i>HK\$'000</i>
At 1 January 2012		731,897,856	73,190
Issue of bonus shares	(a)	146,379,571	14,638
Exercise of warrants	(b)	<u>41,054,766</u>	<u>4,105</u>
At 31 December 2012 and 1 January 2013		919,332,193	91,933
Exercise of warrants	(c)	35,828,572	3,583
Issue of bonus shares	(d)	<u>191,032,153</u>	<u>19,103</u>
At 31 December 2013		<u>1,146,192,918</u>	<u>114,619</u>

#### *Notes:*

- (a) 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.
- (b) 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 34(b)).
- (c) On 4, 8 and 10 January 2013, 10,000,000, 10,000,000 and 15,828,572 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\$21,497,000 was credited to the Company's share premium account (Note 34(c)).

- (d) On 11 October 2013, 191,032,153 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.

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 2013, 76.75% (2012: 67.93%) of the shares were in public hands.

### 33. 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	0.563*

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

	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 January 2012	–	–
Granted during the year	105,120,000*	0.563*
Outstanding at 31 December 2012, 1 January and 31 December 2013	<u>105,120,000</u>	<u>0.563</u>
Exercisable at 31 December 2012 and 2013	<u>105,120,000</u>	<u>0.563</u>

- \* 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 0.1 year and the exercise price was HK\$0.563. In 2012, options were granted on 9 January 2012. The estimated fair value of the options is HK\$14,892,000.

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.

On 8 January 2014, 105,120,000 share options with exercise price of HK\$0.563 each were expired.

#### 34. WARRANTS

	<i>Note</i>	<b>Number of warrants</b>	<b>Weighted average exercise price HK\$</b>
Outstanding at 1 January 2012		–	–
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 31 December 2012 and 1 January 2013		<u>133,760,000</u>	<u>0.7</u>
Exercise of warrants			
– 4 January 2013	(c)	(10,000,000)	0.7
– 8 January 2013	(c)	(10,000,000)	0.7
– 10 January 2013	(c)	(15,828,572)	0.7
Adjustment upon the issue of bonus shares	(d)	<u>20,261,675</u>	<u>0.58</u>
Outstanding at 31 December 2013	(e)	<u>118,193,103</u>	<u>0.58</u>

- (a) On 18 January 2012, the Company and a placing agent entered into a Warrant Placing Agreement to procure not less than six places 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 32(a)), 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 32(b)).
- (c) On 4, 8 and 10 January 2013, 10,000,000, 10,000,000 and 15,828,572 warrants were exercised at HK\$0.7 per share resulting for a total cash proceeds of approximately HK\$25,080,000 to the Company (Note 32(c)).
- (d) Subsequent to the issue of bonus shares of the Company on 11 October 2013 (Note 32(d)), the exercise price was adjusted to HK\$0.58 per warrant and the number of shares exercisable of the warrants outstanding was increased by 20,261,675.
- (e) On 17 January 2014, 118,193,103 warrants with exercise price of HK\$0.58 each were expired.

### 35. FINANCIAL POSITION OF THE COMPANY

	<i>Note</i>	<b>2013</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>
Interests in subsidiaries		343,792	284,576
Other current assets		535	29,092
Other liabilities		(37,758)	(20,954)
		<hr/>	<hr/>
NET ASSETS		<b>306,569</b>	<b>292,714</b>
		<hr/> <hr/>	<hr/> <hr/>
Share capital		114,619	91,933
Other reserves	36(b)	302,857	300,463
Accumulated losses		(110,907)	(105,891)
Proposed final dividend		–	6,209
		<hr/>	<hr/>
TOTAL EQUITY		<b>306,569</b>	<b>292,714</b>
		<hr/> <hr/>	<hr/> <hr/>

## 36. OTHER RESERVES

## (a) Group

		Share premium	Capital reserve	Future development fund	Safety fund	Foreign currency translation reserve	Share-based payment reserve	Warrants reserve	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	At 1 January 2012	276,404	(1,628)	11,795	3,104	52,138	-	-	341,813
	Issue of bonus shares	32(a) (14,638)	-	-	-	-	-	-	(14,638)
	Share-based payments	-	-	-	-	-	14,892	-	14,892
	Issue of warrants	34(a) -	-	-	-	-	-	1,464	1,464
	Exercise of warrants	32(b) 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	15 (6,209)	-	-	-	-	-	-	(6,209)
	<b>Other comprehensive income:</b>								
	Exchange differences on translating foreign operations	-	-	-	-	7,242	-	-	7,242
	<b>At 31 December 2012</b>	<b>280,534</b>	<b>(1,628)</b>	<b>17,643</b>	<b>10,911</b>	<b>59,380</b>	<b>14,892</b>	<b>1,120</b>	<b>382,852</b>
	At 1 January 2013	280,534	(1,628)	17,643	10,911	59,380	14,892	1,120	382,852
	Exercise of warrants	32(c) 21,497	-	-	-	-	-	-	21,497
	Issue of bonus shares	32(d) (19,103)	-	-	-	-	-	-	(19,103)
	Transfer to share premium upon exercise of warrants	300	-	-	-	-	-	(300)	-
	Net appropriations	-	-	(5,647)	2,890	-	-	-	(2,757)
	<b>Other comprehensive income:</b>								
	Exchange differences on translating foreign operations	-	-	-	-	7,681	-	-	7,681
	<b>At 31 December 2013</b>	<b>283,228</b>	<b>(1,628)</b>	<b>11,996</b>	<b>13,801</b>	<b>67,061</b>	<b>14,892</b>	<b>820</b>	<b>390,170</b>

## (b) Company

		Share-based			Warrants	Total
	Share premium	Capital reserve	payment reserve	reserve		
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2012	276,404	3,917	–	–	280,321	
Issue of bonus shares	32(a) (14,638)	–	–	–	(14,638)	
Share-based payments	–	–	14,892	–	14,892	
Issue of warrants	34(a) –	–	–	1,464	1,464	
Exercise of warrants	32(b) 24,633	–	–	–	24,633	
Transfer to share premium upon exercise of warrants	344	–	–	(344)	–	
2012 proposed final dividend	15 (6,209)	–	–	–	(6,209)	
At 31 December 2012	<u>280,534</u>	<u>3,917</u>	<u>14,892</u>	<u>1,120</u>	<u>300,463</u>	
At 1 January 2013	280,534	3,917	14,892	1,120	300,463	
Exercise of warrants	32(c) 21,497	–	–	–	21,497	
Issue of bonus shares	32(d) (19,103)	–	–	–	(19,103)	
Transfer to share premium upon exercise of warrants	300	–	–	(300)	–	
At 31 December 2013	<u>283,228</u>	<u>3,917</u>	<u>14,892</u>	<u>820</u>	<u>302,857</u>	

## (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 (2012: 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 (2012: RMB15) 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 4(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 4(s) to the financial statements.

(vii) *Warrants reserve*

Warrants reserve represents the net proceeds received from the issue of warrants of the Company. Warrants 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.

**37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****Major non-cash transaction**

During the year, the Group sold certain motor vehicles for settlement of its trade payables at approximately HK\$374,000 (2012: HK\$586,000).

**38. CAPITAL COMMITMENTS**

At 31 December 2013, the Group had capital commitments as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Contracted but not provided for		
Mining structures	197	201
Plant and equipment	49,919	–
	<u>50,116</u>	<u>201</u>

**39. LEASE COMMITMENTS**

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Within one year	3,762	1,637
In the second to fifth years inclusive	5,143	3,348
After five years	1,429	2,031
	<u>10,334</u>	<u>7,016</u>

**40. 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:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Cash consideration paid for acquisition of subsidiaries to a director	–	300
License fee payable to a director		
– charge for the year	999	–
– under-provision in prior year	584	–
Loan interest paid to a director	–	61
Loan interest paid to a related company	372	735
	<u>          </u>	<u>          </u>

**41. EVENTS AFTER THE REPORTING PERIOD**

- (a) In January 2014, the Company, as a borrower, entered into a loan agreement with Mr. Xu Bin, as a lender, a director and a substantial shareholder of the Company, for an unsecured loan of HK\$4,000,000 at interest rate of 5% per annum for the use as general working capital of the Company. The loan is repayable on 31 December 2015. On 10 January 2014, the loan had been received.
- (b) On 3 March 2014, the Group entered into agreements to dispose of its investment properties of approximately HK\$8,750,000 at a cash consideration of HK\$8,828,000 and a deposit of approximately HK\$4,550,000 was received on 17 March 2014.
- (c) On 24 March 2014, Beijing Guochuan New Energy Development Co., Limited (“Beijing Guochuan”) as borrower (北京國傳新能源開發有限公司), an indirect wholly-owned subsidiary incorporated in the PRC, entered into a loan agreement with Mr. Xu Bin, as lender, for an unsecured and interest-free loan of RMB20 million (approximately HK\$25.4 million) for use by Beijing Guochuan as general working capital. The loan is repayable on 31 October 2015. On 27 March 2014, the loan has been fully received. The loan facility is unsecured and non-interest bearing.

## 42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2013 are as follows:

Name	Place of registration and operation	Paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Changchun Yicheng Packing Company Limited	The PRC	RMB60,000,000	100%	Manufacturing and sale of plastic woven bags, paper bags and plastic barrels
Changchun Guochuan Energy and Technology Development Company Limited	The PRC	RMB5,000,000	80%	Coal upgrading
Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited (“Inner Mongolia Jinyuanli”)	The PRC	USD45,000,000	56.2%	Coal mining
Jilin Province De Feng Commodity Economics and Trading Co., Limited (“Jilin De Feng”)	The PRC	RMB20,000,000	51%	Coal trading
Xilinhaote City Guochuan Energy Technology Development Co., Ltd.	The PRC	RMB30,000,000	100%	Coal upgrading*

\* As at 31 December 2013, the coal upgrading structure was still under construction and its business has not yet commenced.

The following table shows information of subsidiaries that have non-controlling interests (“NCI”) material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Jilin De Feng		Inner Mongolia Jinyuanli	
	2013	2012	2013	2012
Principal place of business/country of incorporation	PRC/PRC		PRC/PRC	
% of ownership interests/voting rights held by NCI	49%/49%	49%/49%	43.8%/43.8%	43.8%/43.8%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December:</b>				
Non-current assets	234	312	553,459	594,495
Current assets	77,655	93,891	57,852	84,137
Non-current liabilities	–	–	(94,826)	(64,846)
Current liabilities	(22,219)	(37,692)	(382,616)	(406,551)
Net assets	<u>55,670</u>	<u>56,511</u>	<u>133,869</u>	<u>207,235</u>
Accumulated NCI	27,270	27,682	58,913	91,047
<b>Year ended 31 December:</b>				
Revenue	–	62,747	56,297	105,464
Profit/(loss) for the year	(1,718)	2,903	(75,474)	(91,043)
Total comprehensive income	(841)	3,809	(73,366)	(87,727)
Profit/(loss) allocated to NCI	(412)	1,866	(32,134)	(38,424)
Dividends paid to NCI	–	–	–	–
Net cash generated from/(used in) operating activities	(20)	25,717	2,493	101,222
Net cash generated from/(used in) investing activities	–	247	(1,176)	(95,854)
Net cash used in financing activities	–	(30,098)	–	(9,561)
Net increase/(decrease) in cash and cash equivalents	<u>(20)</u>	<u>(4,134)</u>	<u>1,317</u>	<u>(4,193)</u>

#### 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2014.

## 2. STATEMENT OF INDEBTEDNESS

**Borrowings**

As at 31 July 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowings:

	<b>Non-current portion</b> <i>HK\$'000</i>	<b>Current portion</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Group</b>			
Interest-bearing other borrowings, unsecured ( <i>note a</i> )	99,957	–	99,957
Due to non-controlling interests			
– Advances ( <i>note b</i> )	–	12,853	12,853
– Loans ( <i>note c</i> )	39,624	–	39,624
	39,624	12,853	52,477
Due to a director			
– Advances ( <i>note d</i> )	–	2,392	2,392
– Loans ( <i>note e</i> )	33,400	–	33,400
	33,400	2,392	35,792
	<b>172,981</b>	<b>15,245</b>	<b>188,226</b>

*Notes:*

- a. The other borrowings are unsecured, bears interest at 0%-7% per annum and repayable in 2015 and 2016.
- b. The advances from non-controlling interests are unsecured, interest-free and repayable on demand.
- c. The loans from non-controlling interests are unsecured, bear interest at 0%-10.2% per annum and repayable in 2015.
- d. The advances from a director is unsecured, interest-free and repayable on demand.
- e. The loans from a director is unsecured, bear interest at 0%-5% per annum and repayable in 2015 and 2016.

**Pledge of assets and restricted bank deposits**

As at the close of business on 31 July 2014, the Group had restricted bank deposits of approximately HK\$8,000,000. The restricted bank deposits are the deposits kept for the coal mining business, which are required by related coal mining regulation in the PRC.

**Debt securities**

At the close of business on 31 July 2014, the Group did not have any debt securities.

**Contingent liabilities and litigations**

At the close of business on 31 July 2014, the Group had litigations, details refer to note 8 of Appendix IV.

**Disclaimers**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and others payables in the ordinary course of business, the Group did not have any other loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding on 31 July 2014.

**No material changes**

Save as disclosed herein, the Directors confirmed that there have not been any material changes in the indebtedness of the Group since 31 July 2014 up to the Latest Practicable Date.

**3. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstance and after taking into account the net proceeds from the Open Offer and the financial resources presently available to the Group, including internally generated funds and the loan facility from a substantial shareholder of the Company, the Directors are of the opinion that the Group will have sufficient working capital to meet its requirements for the next twelve months from the date of this Circular.

**4. MATERIAL CHANGE**

Save as disclosed in the interim report of the Company for the six months ended 30 June 2014 that the Group had witnessed a deterioration in its operations evidenced by the Group recording an approximately 10% drop in turnover to approximately HK\$153,396,000 for the six months ended 30 June 2014 as compared to the corresponding period in 2013 and incurred a net loss attributable to equity holders of the Company and net loss of approximately HK\$6,312,000 and HK\$8,541,000, respectively, for the six months ended 30 June 2014, as compared to a profit attributable to equity holders of the Company and net loss of approximately HK\$5,847,000 and HK\$5,157,000, respectively, for the six months ended 30 June 2013, as at the Latest Practicable Date, the Directors confirm that there had been no material change in the financial or trading position and outlook of the Group since 31 December 2013, being the date to which the latest published audited consolidated accounts of the Group were made up to and including the Latest Practicable Date.



30 September 2014

The Directors  
DeTeam Company Limited

Dear Sirs

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of DeTeam Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) in connection with (i) the proposed consolidation of every five existing ordinary shares of HK\$0.10 each in the issued and unissued share capital of the Company into one consolidated share of HK\$0.50 (the “Consolidated Share”) in the issued and unissued share capital of the Company (the “Share Consolidation”); and (ii) the proposed open offer (the “Open Offer”) by issuing 229,238,583 ordinary shares (the “Offer Share(s)”) at a subscription price of HK\$0.50 per Offer Share on the basis of one Offer Share for every one Consolidated Share held by the qualifying shareholders. The Unaudited Pro Forma Financial Information has been prepared by the directors (the “Directors”) of the Company for inclusion in a circular (the “Circular”) dated 30 September 2014 issued by the Company in connection with the Share Consolidation and the Open Offer.

#### **Directors’ Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

#### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Listing Rules and with reference to AG 7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Open Offer on unadjusted financial information of the Group as if the Open Offer had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Open Offer would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Open Offer, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Open Offer in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully

**Ascenda Cachet CPA Limited**  
*Certified Public Accountants*

**Chan Yuk Tong**  
Practising Certificate Number P03723  
Hong Kong

## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

## INTRODUCTION

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of the Group which has been prepared for illustrating the effect on the consolidated net tangible assets of the Group of (i) the proposed consolidation of every five existing ordinary shares of HK\$0.10 each in the issued and unissued share capital of the Company into one consolidated ordinary share of HK\$0.50 (the “Consolidated Share”) in the issued and unissued share capital of the Company (the “Share Consolidation”); and (ii) the proposed open offer (the “Open Offer”) by issuing 229,238,583 ordinary shares (the “Offer Share(s)”) at a subscription price of HK\$0.50 per Offer Share on the basis of one Offer Share for every one Consolidated Share held by the qualifying shareholders as if the Open Offer would have taken place on 30 June 2014. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 30 June 2014 or any future date.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the unaudited consolidated net tangible assets of the Group as at 30 June 2014 as extracted from the interim report of the Company and adjusted for the effect of the Open Offer, as follows:

	<b>Consolidated net tangible assets of the Group as at 30 June 2014 HK\$'000 (note i)</b>	<b>Estimated net proceeds from the Open Offer HK\$'000 (note ii)</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group after the Open Offer HK\$'000</b>
	448,133	110,000	558,133
Unaudited consolidated net tangible assets of the Group per Consolidated Share as at 30 June 2014 (note iii)			HK\$1.95
Unaudited pro forma adjusted consolidated net tangible assets of the Group per Consolidated Share upon completion of the Open Offer as at 30 June 2014 (note iv)			HK\$1.22

*Notes:*

- (i) The consolidated net tangible assets of the Group as at 30 June 2014 is arrived at by deducting from consolidated net assets of the Group of approximately HK\$545,805,000 as at 30 June 2014 and the goodwill, prepaid land lease and intangible assets of approximately HK\$2,907,000, HK\$2,817,000 and HK\$91,948,000, respectively, as at 30 June 2014.
- (ii) The estimated net proceeds from the Open Offer are calculated based on 229,238,583 Offer Shares to be issued at the subscription price of HK\$0.50 per Offer Share after deduction of the related legal and professional expenses and out-of-pocket expenses of approximately HK\$4,619,000, will be approximately HK\$110,000,000.
- (iii) The calculation of unaudited consolidated net tangible assets of the Group per Consolidated Share as at 30 June 2014 is based on the consolidated net tangible assets of the Group of approximately HK\$448,133,000 and the 229,238,583 Consolidated Shares in issue, assuming the Consolidation would have been completed on 30 June 2014.
- (iv) The calculation of unaudited pro forma adjusted consolidated net tangible assets of the Group per share as at 30 June 2014 is based on the unaudited pro forma adjusted consolidated net tangible assets of the Group after the Open Offer of approximately HK\$558,133,000 and the 458,477,166 Consolidated Shares in issue, assuming the Open Offer would have been completed on 30 June 2014.
- (v) No adjustment has been made to reflect the trading results or other transactions of the Group entered into subsequent to 30 June 2014.

*The following is the text of a letter, valuation summary and valuation certificates dated 30 September 2014 prepared for the purpose of incorporation into this circular received from DTZ Debenham Tie Leung Limited in connection with its opinion on the values of the properties held by the Group as at 31 July 2014.*



DTZ  
16/F, Jardine House,  
Central, Hong Kong

30 September 2014

The Directors  
DeTeam Company Limited  
Suite No. 3, 31st Floor  
Sino Plaza  
255-257 Gloucester Road  
Hong Kong

Dear Sirs,

#### **Instructions, Purpose and Date of Valuation**

In accordance with your instructions for us to value the properties held by DeTeam Company Limited (referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”) (as more particularly described in the valuation certificates), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary to provide you with our opinion of the values of such properties as at 31 July 2014 (the “date of valuation”).

#### **Definition of Market Value**

In valuing each of the properties, we have complied with the requirements set out in The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our valuation of each of the properties represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

### Valuation Basis and Assumption

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Unless otherwise stated, we have, in the course of our valuation of the properties, assumed that transferable land use rights in respect of the properties for a specific term at nominal annual land use fees have been granted and that any premium has already been fully settled. We have relied on the advice given by the Group regarding the title to the properties. Unless otherwise stated, we have, for the purpose of our valuations, assumed that the grantee has enforceable title to the properties. Moreover, we have assumed that the grantee or the user of the properties has free and uninterrupted rights to use or to assign the properties for the whole of the unexpired term as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Given that Property No. 1 is the only property with value attributed, there are potential tax liability which might arise on the disposal of Property No. 1 at the amount of valuation including but not limited to business tax, stamp duties, profit tax, land appreciation tax and any other relevant taxes prevailing at the time in the respective jurisdiction. The respective tax rates of the said are inter alia, cited as follows:-

- Business tax at a rate of 5.6% and Stamp duties at a rate of 0.1% of consideration for the property in the PRC;
- Profits tax on the profit from the sale at a rate of 25% for the property in the PRC; and
- Land value appreciation tax for the property in the PRC at progressive tax rates ranging from 30% to 60% on the appreciation.

The basis and definition of market value do not allow for any taxation that may be incurred in effecting sales and therefore we have not considered such tax liability in the valuation. As advised by the Company, the potential tax liabilities resulting from the sale of Property No. 1 at the amount of valuation is unlikely to be crystallised as the Group is currently utilizing it as a production site for its principal business activity.

We have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any development and our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the area shown on the documents handed to us are correct.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group and the advice provided by the Group's legal advisor, Beijing Chong Guang Law Office, are set out in the notes in the respective valuation certificate.

In valuing the properties, we have complied with the requirements set out in The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors. We have also complied with all the requirements contained in Paragraph 46 of Schedule 3 of the Companies Ordinance, Chapter 5 and Practice Note 12 of the Listing Rules.

### **Method of Valuation**

Due to the specific nature and restricted use of the buildings and structures, and absence of relevant market evidence, we have valued the Property No. 1 mainly by reference to the Depreciated Replacement Cost ("DRC") Approach. DRC is based on an estimate of the market value for the existing use of the land (which is by reference to relevant land sales comparables subject to appropriate adjustments including but not limited to location, time, size etc.), plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. The value is subject to service potential of the entity from the use of assets as a whole.

We have ascribed no commercial value to Property Nos. 2 & 3 as the respective title document of the properties has not yet been obtained as at the date of valuation.

### **Title Investigation**

We have been provided with extracts of documents relating to the titles of the properties in the PRC, but no searches have been made in respect of the properties. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the Group regarding the Group's interests in the PRC properties.

### **Source of Information**

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal adviser, Beijing Chong Guang Law Office, regarding the titles to the properties and the interests of the Group in the properties. In respect of the properties in the PRC, we have accepted advice given by the Group on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents of the properties in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise you to make reference to the original Chinese editions of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

### **Site Inspection**

Mr. Wayne Xiao, Manager of our Beijing Office and Mr. Jeffery Wang, Assistant Manager of our Shenyang Office, have inspected the exterior and, wherever possible, the interior of the properties in September 2014. However, we have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the area shown on the documents handed to us are correct.

### **Currency**

Unless otherwise stated, all money amounts stated in this valuation report are in Renminbi (“RMB”) which is the official currency of the PRC.

We enclose herewith a summary of our valuations and our valuation certificates.

Yours faithfully,  
For and on behalf of  
**DTZ Debenham Tie Leung Limited**

**Andrew K.F. Chan**  
Registered Professional Surveyor (General Practice)  
Registered China Real Estate Appraiser  
**MSc, MHKIS**  
*Senior Director*

*Note:* Mr. Andrew Chan is a Registered Professional Surveyor (General Practice) who has over 27 years’ experience in the valuation of properties in the PRC.

## VALUATION SUMMARY

Property	Market value in existing state as at 31 July 2014
<b>Group I – Properties held by the Group for owner occupation in the PRC</b>	
1. An industrial complex situated at Hexin Town, Lvyuan District, Changchun, Jilin Province, the PRC	RMB67,000,000
2. An industrial complex situated at Yuanyuan Industrial Park, Huolinguole, Inner Mongolia Autonomous Region, the PRC	<u>No commercial value</u>
Sub-total:	<u>RMB67,000,000</u>
<b>Group II – Property held by the Group under development in the PRC</b>	
3. An industrial complex situated at the west of Xia Road, Lignite Base, Xilinhaote, Inner Mongolia Autonomous Region, the PRC	<u>No commercial value</u>
Sub-total:	<u>No commercial value</u>
<b>Total</b>	<b><u><u>RMB67,000,000</u></u></b>

## VALUATION CERTIFICATE

## Group I – Properties held by the Group for owner occupation in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2014
1	An industrial complex situated at Hexin Town, Lvyuan District, Changchun, Jilin Province, the PRC	<p>The property comprises an industrial complex erected upon 2 parcels of land with a total site area of approximately 34,141 sq m. in an industrial area situated at about 20 minutes driving distance from the city centre.</p> <p>The industrial complex comprises nine of buildings including a single-storey workshop, four 2-storey workshops, a single-storey warehouse, a boiler room, a 5-storey composite workshop and a 4-storey workshop all completed between 2003 and 2010. According to the nine Building Ownership Certificates, the industrial complex has a total gross floor area of approximately 27,258 sq m.</p> <p>In addition, the industrial complex comprises three buildings without Building Ownership Certificates. Such portions comprises a dispatcher room and two storerooms with a total gross floor area of approximately 1,928.67 sq m completed between 2003 and 2010. (Please see note (3) below).</p> <p>The land use rights of the 2 parcels of land of the property have been granted for terms due to expire on 16 April 2051 and 17 December 2057 respectively for industrial use.</p>	As at the valuation date, the property was occupied by the Group for industrial use.	RMB67,000,000 (See Note 3)

*Notes:*

- (1) According to two State-owned Land Use Rights Certificates Nos. (2003)060200338 and (2003)061000290 both issued by Changchun Municipal Land Resources Bureau, the land use rights of the property with a total site area of 34,141 sq m have been vested in Changchun Yicheng Packaging Company Limited (長春益成包裝有限公司) for land use terms due to expire on 16 April 2051 and 17 December 2057 respectively for industrial use.
- (2) According to 9 Building Ownership Certificates all issued by Changchun Real Estate Title Registration and Certificate Issuance Center, the building ownership of the property comprising a total gross floor area of 27,258 sq m have been vested in Changchun Yicheng Packaging Company Limited. Details of the said certificates are, inter alia, cited as follows:

Certificate No.	Use	Gross Floor Area sq m
5090002299	Workshop	1,884.90
5090002300	Workshop	2,303.96
5090002301	Warehouse	494.10
5090002302	Industrial Warehouse	4,440.00
5120002221	Workshop	10,368.00
5120002222	Boiler room	216.64
5120002223	Composite Workshop	3,000.00
5120002224	Workshop	2,964.00
5120002225	Workshop	1,586.40

- (3) As advised by the Group and in accordance with the PRC legal opinion, three other buildings comprising a total gross floor area of 1,928.67 sq m have not been issued with any Building Ownership Certificate. In the course of our valuation, we have assigned no commercial value to the said three buildings.
- (4) According to Business Licence No. 220101040000914, Changchun Yicheng Packaging Company Limited has been established as a limited company with registered capital of RMB60,000,000 for a valid operating period until 14 May 2021.
- (5) We have been provided with a legal opinion on the property prepared by the Group's legal adviser, which contains, inter alia, the following information:
- (i) Changchun Yicheng Packaging Company Limited is in possession of a proper legal title to the land use rights as well as the building ownership rights of the property (except the three buildings without Building Ownership Certificates) and has the rights to lease, mortgage and dispose of the property with the residual term of its land use right; and
- (ii) The Building Ownership Certificates for the three buildings with a total gross floor area of 1,928.67 sq m have not been obtained and Changchun Yicheng Packaging Company Limited is not the proper legal owner of such buildings.
- (6) The status of title and grant of major approvals and licences in accordance with the information provided by the Group as well as the legal opinion are as follows:–

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes (part)
Business Licence	Yes

## VALUATION CERTIFICATE

	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31 July 2014</b>
2	An industrial complex situated at Yuanyuan Industrial Park, Huolinguole, Inner Mongolia Autonomous Region, the PRC	<p>The property comprises an industrial complex erected upon four parcels of land with a total site area of approximately 127,380 sq m. in an industrial area situated at about 30 minutes driving distance from the city centre.</p> <p>The industrial complex comprises 40 buildings including workshops, warehouses, offices and dormitories with ancillary structures with a total gross floor area of approximately 24,090.25 sq m completed between 2000 and 2012.</p> <p>The land use rights of the property have not been obtained.</p>	As at the valuation date, the property was occupied by the Group for industrial use.	No commercial value (See Note 1)
<i>Notes:</i>				
(1)	As advised by the Group and in accordance with the PRC legal opinion, the property has not been granted with any title certificates. In the course of our valuation, we have ascribed no commercial value to the property.			
(2)	According to Business Licence No. 150000400000105, Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited (內蒙古源源能源集團金源里井工礦業有限責任公司) has been established as a limited company with registered capital of USD45,000,000 for a valid operating period until 3 July 2037.			
(3)	We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information:			
(i)	Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited has not obtained the legal land use rights or the building ownership of the property; and			
(ii)	Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited has no right to mortgage or dispose of the property.			
(4)	The status of title and grant of major approvals and licences in accordance with the information provided by the Group as well as the legal opinion are as follows:-			
	Grant Contract for State-owned Land Use Rights			No
	State-owned Land Use Rights Certificate			No
	Building Ownership Certificate			No
	Planning Permit for Construction Use of Land			No
	Planning Permit for Construction Works			No
	Commencement Permit for Construction Works			No
	Construction Works Completion Examination Certificate			No
	Business Licence			Yes

## VALUATION CERTIFICATE

## Group II – Property held by the Group under development in the PRC

	<b>Property</b>	<b>Description and tenure</b>	<b>Particulars of occupancy</b>	<b>Market value in existing state as at 31 July 2014</b>
3	An industrial complex situated at the west of Xia Road, Lignite Base, Xilinhaote, Inner Mongolia Autonomous Region, the PRC	<p>The property comprises an industrial complex being erected upon a parcel of land with a site area of approximately 163,729 sq m. in an industrial area situated at about 30 minutes driving distance from the city centre.</p> <p>As advised by the Group, the industrial complex upon completion will comprise eight buildings with a total proposed gross floor area of approximately 37,786 sq m and various ancillary structures.</p> <p>The property is scheduled to be completed in 2015.</p> <p>The land use rights of the property have contracted to be granted for a term of 50 years due to expire 22 August 2063 for industrial use.</p>	As at the valuation date, the property was under construction.	No commercial value (See Note 1)

*Notes:*

- (1) As advised by the Group and in accordance with the PRC legal opinion, the property has not been granted with any title certificates or any planning/construction approval document. In the course of our valuation, we have ascribed no commercial value to the property.
- (2) According to a Grant Contract for State-owned Land Use Rights entered into between Xilinhaote Municipal Land Resources Bureau (錫林浩特市國土資源局) (“Party A”) and Xilinhaote City Guochuan Energy Technology Development Co., Ltd. (錫林浩特市國傳能源科技開發有限公司) (“Party B”) on 3 September 2013, Party A has agreed to grant the land use rights of the property to Party B with details as follows:

Site Area	:	163,729 sq m
Land Use	:	Industrial
Land Use Term	:	50 years
Land Premium	:	RMB15,717,984
Gross floor area	:	54,599 sq m
Building Covenant	:	Construction should commence before 25 September 2013 and complete before 25 September 2015

- (3) According to the information provided by the Group, the total expended construction costs and the estimated outstanding construction costs to complete the development of the property as at 31 July 2014 were approximately RMB79,317,000 and RMB50,683,000 respectively. We have not taken into account such amounts in our valuation.
- (4) According to Business Licence No. 152582000000301, Xilinhaote City Guochuan Energy Technology Development Co., Ltd. has been established as a limited company with registered capital of RMB30,000,000 for a valid operating period until 10 July 2033.
- (5) We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, inter alia, the following information:
- (i) Xilinhaote City Guochuan Energy Technology Development Co., Ltd. has not obtained the legal land use rights or the building ownership of the property; and
- (ii) Xilinhaote City Guochuan Energy Technology Development Co., Ltd. has no right to mortgage or dispose of the property.
- (6) The status of title and grant of major approvals and licences in accordance with the information provided by the Group as well as the legal opinion are as follows:–

Grant Contract for State-owned Land Use Rights	Yes
State-owned Land Use Rights Certificate	No
Planning Permit for Construction Use of Land	No
Planning Permit for Construction Works	No
Commencement Permit for Construction Works	No
Business Licence	Yes



*(b) Share capital upon completion of the Open Offer and Share Consolidation*

<b>Authorised capital:</b>		<i>HK\$</i>
<u>2,000,000,000</u>	ordinary Shares of HK\$0.50 each	<u>1,000,000,000.00</u>
<b>Issued and to be issued:</b>		
229,238,583	Shares in issue as at the Latest Practicable Date	114,619,291.50
229,238,583	Offer Shares to be issued pursuant to the Open Offer	114,619,291.50
<u>458,447,166</u>	Shares upon completion of the Open Offer and Share Consolidation	<u>229,238,583.00</u>

All of the Offer Shares to be issued will rank pari passu in all respects with all the Shares in issue as at the date of allotment and issue of the Offer Shares, including the rights to voting, dividends and return of capital. The Offer Shares to be issued will be listed on the Stock Exchange.

All existing issued Shares rank pari passu in all respect as to return of capital, dividends and voting. Saved as disclosed above, no Shares have been issued as at the Latest Practicable Date since 31 December 2013, being the date on which the latest audited financial statements of the Company were made up.

The Company has no outstanding share options, warrants and conversion rights affecting the Shares in the Company as at the Latest Practicable Date.

**3. DISCLOSURE OF INTERESTS****(a) Director's and chief executive's interests in the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors or the 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 SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (iii) pursuant to Model Code for Securities Transactions by Directors of Listed Companies to be notified to the issuer and the Exchange or (iv) pursuant to the Takeovers Code, to be disclosed in this circular, were as follows:

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

Name	Number of ordinary shares				Total	Percentage of issued share capital
	Personal interests	Corporate interests	Family interests	Other interests		
Mr. Mak Shiu Chung, Godfrey	-	144,651,018(L) <i>(Note 2)</i>	-	-	144,651,018(L)	12.62%
Mr. Xu Bin	121,828,147(L)	1,146,192,915 <i>(Note 3)</i>	-	-	1,268,021,062(L)	110.63%
Mr. Tsang Wai Sum	477,757(L)	-	-	-	477,757(L)	0.04%

*Notes:*

- 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.
- 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 144,651,018 shares owned by Lucky Team.
- As the Underwriter is wholly-owned by Mr. Xu, Mr. Xu is deemed to be interested in the 1,146,192,915 Shares (equivalent to 229,238,583 Consolidated Shares) in which the Underwriter is interested pursuant to the underwriting obligation under the Underwriting Agreement.
- 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 the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the 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, to be notified to the Company and the Stock Exchange or which were required, pursuant to the Takeovers Code, to be disclosed in this circular.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) Model Code for Securities Transactions by Directors of Listed Companies to be notified to the issuer and the Exchange or (iv) pursuant to the Takeovers Code, to be disclosed in this circular.

**(b) 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 the Latest Practicable Date, 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	Percentage of issued share capital
Lucky Team International Limited (“Lucky Team”) (Note 1)	Beneficial Owner	144,651,018(L)	12.62%
The Underwriter	Interest under the Underwriting Agreement	1,146,192,915(L) (Note 2)	100%
China Galaxy International Finance (Hong Kong) Co., Limited	Security Interest (Note 3)	1,268,021,060(L)	110.63%(L)
Central Huijin Investment Ltd.	Corporate Interest (Note 4)	1,268,021,060(L)	110.63%(L)
China Galaxy Financial Holdings Company Limited	Corporate Interest (Note 4)	1,268,021,060(L)	110.63%(L)
China Galaxy International Financial Holdings Ltd.	Corporate Interest (Note 4)	1,268,021,060(L)	110.63%(L)
China Galaxy Securities Co. Ltd	Corporate Interest (Note 4)	1,268,021,060(L)	110.63%(L)

*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. It represents the Underwriter's interest in 1,146,192,915 Shares (equivalent to 229,238,583 Consolidated Shares) pursuant to the underwriting obligation under the Underwriting Agreement.
3. It represents the security interest over the 229,238,583 new Consolidated Shares (equivalent to 1,146,192,915 Shares) which may be taken up by the Underwriter under the Underwriting Agreement and the 121,828,147 Shares owned by Mr. Xu created under two share charges in favour of China Galaxy International Finance (Hong Kong) Co., Limited as security for the loan facility provided to the Underwriter to finance part of its underwriting obligation under the Underwriting Agreement.
4. Since China Galaxy International Finance (Hong Kong) Co., Limited is a direct or indirect subsidiary of Central Huijin Investment Ltd., China Galaxy Financial Holdings Company Limited, China Galaxy International Financial Holdings Ltd. and China Galaxy Securities Co. Ltd, Central Huijin Investment Ltd., China Galaxy Financial Holdings Company Limited, China Galaxy International Financial Holdings Ltd. and China Galaxy Securities Co. Ltd are deemed to be interested in the 1,268,021,060 Shares in which China Galaxy International Finance (Hong Kong) Co., Limited has security interest.
5. The letter "L" denotes a long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, 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 or which would fall to be disclosed in this circular pursuant to the Takeovers Code.

#### 4. DIRECTORS' SERVICE CONTRACTS

Pursuant to the service agreement dated 28 June 2013 (the "**Service Agreement**") and entered into between Mr. Zhang Fusheng and the Company, Mr. Zhang Fusheng was appointed as an executive director, the chief executive officer and an authorised representative of the Company for a term of three years commencing 28 June 2013. Pursuant to the Service Agreement, Mr. Zhang Fusheng is entitled to a director's fee of HK\$600,000 per annum. There is no other variable remuneration to be entitled by Mr. Zhang Fusheng.

Save as disclosed above, none of the Directors has service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

#### 5. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors has, or has had, any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 6. DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, save for the Underwriting Agreement, the License Agreement and, the Loan Facility Agreement in which Mr. Xu has material interest, none of Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting and significant in relation to the business of the Group.

## 7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

## 8. LITIGATION

As at the Latest Practicable Date, save as disclosed below, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

Reference is made to the announcements (the “**Announcements**”) of the Company dated 14 July 2014, 25 July 2014, 15 August 2014 and 23 September 2014 respectively in relation to the patent infringement proceedings with 長青中美(北京)能源技術有限公司 (Evergreen China Energy Technology Company Limited<sup>#</sup>) (“**Evergreen**”).

As disclosed in the announcement of the Company dated 14 July 2014, on 10 July 2014, the Company received a letter (the “**Letter**”) from Beijing Lifang & Partners Law Firm (“**Lifang**”), representing Evergreen. In the Letter, reference was made to the six patent applications (the “**Six Patent Applications**”) to the State Intellectual Property Office (“**SIPO**”) of the PRC in relation to the technology (the “**Technology**”) for upgrading lignite to raise its value which were licensed by Mr. Xu to 北京國傳新能源開發有限公司 (Beijing Guochuan Energy New Energy Development Co., Ltd.<sup>#</sup>) (“**Beijing Guochuan**”), an indirect wholly-owned subsidiary of the Company, and sub-licensed to 錫林浩特市國傳能源科技開發有限公司 (Xilinhaote City Guochuan Energy Technology Development Co., Ltd.<sup>#</sup>) (“**Xilinhaote Guochuan**”), a wholly-owned subsidiary of Beijing Guochuan, in May 2012 and the proposed engagement of 大連船舶重工集團裝備製造有限公司 (Dalian Shipbuilding Industry Equipment Manufacturing Company Limited<sup>#</sup>) (“**Dalian Shipbuilding**”) by Beijing Guochuan for the proposed construction of production facilities for upgrading lignite. Patents (the “**Licensed Patents**”) were granted by the SIPO in respect of five out of the Six Patent Applications.

It was alleged in the Letter that (i) Evergreen is the exclusive licensee for the patented lignite upgrading technology (“**Evergreen's Patented Technology**”); (ii) Mr. Xu had discussed with Evergreen for the implementation of Evergreen's Patented Technology and shortly afterwards, Mr. Xu suddenly filed the Six Patent Applications to SIPO which fell within the scope of protection of the relevant patent of Evergreen; (iii) Mr. Xu plagiarized Evergreen's Patented Technology; and (iv) the engagement for the making of lignite upgrading equipment and lignite upgrading by Beijing Guochuan and Xilinhaote Guochuan constitute infringement.

It was also mentioned in the Letter that Evergreen has engaged Lifang to instigate patent infringement proceedings (the “**Patent Infringement Proceedings**”) against Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan at the Third Intermediate People’s Court of Beijing to request for the cease of the infringement. The case was accepted by the Court in May 2014. Furthermore, Evergreen has also engaged Lifang to file request for invalidation of five Licensed Patents of Mr. Xu with the Patent Reexamination Board of the SIPO and submit written opinion to the SIPO that patent should not be granted for the remaining one patent application. Such remaining patent application (the “**Refused Patent Application**”) has been refused by the SIPO due to lack of novelty.

In the Patent Infringement Proceedings, Evergreen petitioned for:

- (i) ordering Beijing Guochuan, Xilinhaote Guochuan and Mr. Xu to forthwith cease manufacture and use the lignite upgrading equipment with the invention patent for which Evergreen enjoyed an exclusive license right;
- (ii) ordering Beijing Guochuan, Xilinhaote Guochuan and Mr. Xu to compensate for the reasonable expense of RMB100,000 paid by Evergreen to stop the infringement act; and
- (iii) ordering Beijing Guochuan, Xilinhaote Guochuan and Mr. Xu to bear the costs of the legal proceedings.

Since the technology under the Refused Patent Application is not part of the core technology currently used by the Group in upgrading lignite, the Directors believe that the impact of the refusal of the grant of patent under the Refused Patent Application on the Group’s business operation would not be material. Commerce & Finance Law Offices, the PRC legal advisers of the Group for the legal proceedings, have advised that after their preliminary analysis of the evidence provided by Evergreen, they consider that the evidence provided by Evergreen is not sufficient to prove that (i) Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan made or used the equipment protected by Evergreen’s patent; (ii) the equipment and technical solutions actually made or used by Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan fall within the scope of protection of Evergreen’s patent; and (iii) there has been infringement on the part of Mr. Xu, Beijing Guochuan and Xilinhaote Guochuan.

As disclosed in the announcement dated 25 July 2014 of the Company, according to the writing examination decisions issued by the Patent Reexamination Board of the SIPO on 21 July 2014 in respect of two of the Licensed Patents, the Patent Reexamination Board of the SIPO decided that all the reasons alleged by Evergreen for invalidation of such two Licensed Patents could not be substantiated and the validity of such two Licensed Patents should be upheld based on the amended patent claims submitted by Mr. Xu.

As disclosed in the announcement dated 15 August 2014 of the Company, according to the writing examination decisions issued by the Patent Reexamination Board of the SIPO on 1 August 2014 and 6 August 2014 respectively in respect of another two of the Licensed Patents, the Patent Reexamination Board of the SIPO decided that all the reasons alleged by Evergreen for invalidation of such another two Licensed Patents could not be substantiated and the validity of such another two Licensed Patents should be upheld of which one of the Licensed Patents was upheld based on the amended patent claims submitted by Mr. Xu and the other was upheld without any amendment to the patent claims.

As disclosed in the announcement dated 23 September 2014 of the Company, according to the written examination decision issued by the Patent Reexamination Board of the SIPO on 3 September 2014 in respect of the remaining one Licensed Patent, the Patent Reexamination Board of the SIPO decided to uphold the validity of the remaining one Licensed Patent based on the amended patent claims submitted by Mr. Xu.

The outcome of the Patent Infringement Proceedings was still pending as at the Latest Practicable Date. Based on the above advice by the PRC legal advisers of the Group and the information available as at the Latest Practicable Date and the reasons that (i) the monetary amount claimed by Evergreen under the Patent Infringement Proceedings is immaterial; (ii) the Patent Reexamination Board of the SIPO has upheld the validity of five of the Licensed Patents; (iii) the Group can continue to use the Licensed Patents which have been upheld by the Patent Reexamination Board of the SIPO in its coal upgrading business, and (iv) the Group is able to apply other technology or identify other suitable technology for its coal upgrading production, the Directors believe that the Patent Infringement Proceedings will not have any material effect on the financial or business position of the Group as a whole.

## 9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
China Galaxy International Securities (Hong Kong) Co., Limited ("China Galaxy")	a corporation licensed to carry out business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Bridge Partners	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ascenda Cachet CPA Limited ("Ascenda")	Certified Public Accountants
Commerce & Finance Law Offices ("CFLO")	PRC registered lawyers
DTZ Debenham Tie Leung Limited ("DTZ")	Independent Property Valuer

Each of China Galaxy, Bridge Partners, Ascenda, CFLO and DTZ has given and has not withdrawn their written consent to the issue of this circular with the inclusion herein of their letter or their name in the form and context in which they respective appear.

Each of China Galaxy, Bridge Partners, Ascenda, CFLO and DTZ does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of China Galaxy, Bridge Partners, Ascenda, CFLO and DTZ does not have any direct or indirect interests in any assets which have been, since 31 December 2013 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

## 10. MATERIAL CONTRACTS

The following contracts, which are contracts that are or may be entered into outside the ordinary course of business carried on or intended to be carried on by the Group, have been entered into by members of the Group within the two years preceding 8 August 2014 and up to the Latest Practicable Date and which are or may be material:

- (i) the memorandum of understanding dated 20 December 2012 and entered into between Beijing Guochuan, an indirect wholly-owned subsidiary of the Company, and Dalian Shipbuilding, an Independent Third Party, in relation to the management of the establishment of the facilities of upgrading low-rank coal with an expected annual capacity of not less than 2,000,000 tonnes of upgraded coal in which no consideration was determined;
- (ii) the agreement dated 23 January 2013 and entered into between 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 Resources Jinyuanli Underground Mining Company Limited<sup>#</sup>) (“**First JV Company**”), a 56.2% non-wholly owned subsidiary of the Company, and 內蒙古源源能源集團有限責任公司 (Inner Mongolia Yuan Yuan Energy Resources Company Limited<sup>#</sup>) (“**YYE**”) which owns 43.8% equity interest in the First JV Company, in relation to (i) the leasing of a station platform for coal transportation and (ii) the provision of coal loading services by YYE to the First JV Company at the proposed annual caps payable by the Group in the amount HK\$24,000,000 per year for each of the three years ending 31 December 2013, 2014 and 2015; and
- (iii) the project management contract dated 9 November 2013 and entered into among Beijing Guochuan and Xilinhaote Guochuan, both indirect wholly-owned subsidiaries of the Company and Dalian Shipbuilding, an Independent Third Party, for the construction of the facilities of upgrading low-rank coal in Xilinhaote City, Inner Mongolia, the PRC with the tentative total project costs of RMB458,850,000;
- (iv) the Loan Facility Agreement; and
- (v) the Underwriting Agreement.

## 11. EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount approximately HK\$4.6 million and are payable by the Company.

**12. MARKET PRICES**

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) the Last Trading Day; and (iii) the Latest Practicable Date (the “**Relevant Period**”).

<b>Date</b>	<b>Closing price of the Shares (HK\$)</b>
30 January 2014	0.450
28 February 2014	0.410
31 March 2014	0.300
30 April 2014	0.255
30 May 2014	0.280
30 June 2014	0.285
29 July 2014 (being the Last Trading Day)	0.300
29 August 2014	0.184
26 September 2014 (being the Latest Practicable Date)	0.168

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.470 as quoted on 6 February 2014 and HK\$0.168 as quoted on 25 September 2014 and 26 September 2014.

**13. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION**

<b>Registered Office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Suite No.3, 31st Floor Sino Plaza 255-257 Gloucester Road Hong Kong
<b>Authorised representative</b>	Mr. Mak Shiu Chung, Godfrey Mr. Zhang Fusheng
<b>Company Secretary</b>	Mr. Wong Choi Chak FCCA, CPA
<b>Compliance Officer</b>	Mr. Mak Shiu Chung, Godfrey
<b>Legal advisor to the Company</b>	As to Hong Kong Law Michael Li & Co 19th Floor, Prosperity Tower No. 39 Queen’s Road Central Central, Hong Kong

	As to Cayman Islands law Conyers Dill & Pearman (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Independent Financial Adviser</b>	Bridge Partners Capital Limited Room 3303, 33/F, West Tower Shun Tak Centre 200 Connaught Road Central Hong Kong
<b>Auditors</b>	RSM Nelson Wheeler Certified Public Accountants 29th Floor, Caroline Centre Lee Gardens Two 28 Yun Ping Road Hong Kong
<b>Reporting Accountants</b>	Ascenda Cachet CPA Limited 13F Neich Tower 128 Gloucester Road Wanchai Hong Kong
<b>Underwriter</b>	Hong Kong Hang Kei Company Limited <i>Registered office:</i> P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands  <i>Correspondence address in Hong Kong:</i> Suit No. 3 31st Floor, Sino Plaza 255-257 Gloucester Road Hong Kong
<b>Director of the Underwriter</b>	Mr. Xu Bin
<b>Financial adviser to the Company</b>	China Galaxy International Securities (Hong Kong) Co. Limited Room 3501-07, 35/F Cosco Tower 183 Queen's Road Central Sheung Wan Hong Kong

<b>Principal share registrar and transfer office in the Cayman Islands</b>	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Abacus Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banker</b>	Bank of China (Hong Kong) Limited China Citic Bank International Limited
<b>Audit Committee</b>	Mr. Kwok Chi Shing ( <i>Chairman</i> ) Mr. Tsang Wai Sum Mr. Huang Shao Ru

#### 14. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, save for Mr. Mak Siu Chung, Godfrey and Mr. Xu who shall abstain from voting in favour at the EGM, and Mr. Tsang Wai Sum who has indicated that he will vote in favour at the EGM, no other persons had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Share Consolidation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

As at the Latest Practicable Date, save for Mr. Mak Shui Chung, Godfrey, Mr. Xu who would take up his assured entitlement under the Open Offer through his underwriting obligation pursuant to the Underwriting Agreement and Mr. Tsang Wai Sum who have informed the Company of their intention not to take up their assured entitlements under the Open Offer, no person who owned or controlled any Relevant Securities of the Company had irrevocably committed themselves to accept or reject his entitlement under the Open Offer and save for the Underwriting Agreement, the Underwriter had not dealt for value in the Relevant Securities of the Company during the Relevant Period.

As at the Latest Practicable Date, other than the Underwriting Agreement, there is no arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to any Relevant Securities of the Company and/or of the Underwriter and which might be material to the transactions contemplated under the Underwriting Agreement, the Share Consolidation, the Open Offer and/or the Whitewash Waiver.

As at the Latest Practicable Date, save for the Underwriting Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) exists between Mr. Xu, the Underwriter or any person acting in concert with it and any of the Directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Open Offer (including the absence of excess application arrangement under the Open Offer), the Share Consolidation, the Underwriting Agreement and the Whitewash Waiver, nor there is any agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Open Offer the Underwriting Agreement, the Share Consolidation and/or the Whitewash Waiver or otherwise connected with the Open Offer the Underwriting Agreement, the Share Consolidation and/or the Whitewash Waiver.

As at the Latest Practicable Date, save for the Underwriting Agreement, there are no agreements or arrangements to which Mr. Xu, the Underwriter, and the parties acting in concert with any of them or any of their respective associates is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Share Consolidation, the Open Offer and the transactions contemplated under the Underwriting Agreement and the Whitewash Waiver.

As at the Latest Practicable Date, no Shares or Relevant Securities of the Company have been borrowed or lent by Mr. Xu, the Underwriter or any parties acting in concert with any of them, the Company or the Directors and save for the Underwriting Agreement, none of them had dealt for value in the Relevant Securities of the Company during the Relevant Period.

As at the Latest Practicable Date, the Company did not have any interest in the shares and convertible securities, warrants, options or derivatives in respect of the shares of the Underwriter and had no dealings in the shares and convertible securities, warrants, options or derivatives in respect of the shares of the Underwriter during the Relevant Period.

As at the Latest Practicable Date and save for the Underwriting Agreement, none of the Directors had dealt for value in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company or the Underwriter during the Relevant Period.

As at the Latest Practicable Date, there are no particulars of any capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option.

As at the Latest Practicable Date and save for the Underwriting Agreement, there were no material contract or agreement entered into by Underwriter subsisting as at the Latest Practicable Date in which any of the Directors has a material personal interest.

As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; (iii) any advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) owns or controls any Shares, convertible securities, warrants, options or derivatives of the Shares and the Relevant Securities of the Company and none of them had dealt for value in any such securities of the Company during the Relevant Period.

As at the Latest Practicable Date, other than the Underwriting Agreement, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (i) Mr. Xu, the Underwriter or parties acting in concert with it; or (ii) the Company, or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of associate under the Takeovers Code and no such person had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares and the Relevant Securities of the Company during the Relevant Period.

As at the Latest Practicable Date, no Shares, convertible securities, warrants, options or derivatives of the Shares and the Relevant Securities of the Company were managed on a discretionary basis by fund managers connected with the Company, none of them had dealt for value in any such securities of the Company during the Relevant Period.

**15. MISCELLANEOUS**

- (a) Other than the Underwriting Agreement signed between the Underwriter and the Company, and the Whitewash Waiver may be granted to the Underwriter, there is no other benefit that was given or will be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer the Underwriting Agreement and the Whitewash Waiver.
- (b) The business address of the Directors and senior management is Suite No.3, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong.
- (c) There is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong.
- (d) There is no other stock exchange on which any part of the equity or debt securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought.

**16. DIRECTORS AND SENIOR MANAGEMENT****Executive Directors**

**Mr. Xu Bin**, aged 48, joined the Company in August 2009, and was appointed as an executive Director and Co-chairman of the Company on 10 August 2009. Mr. Xu has over 14 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. Mak Shiu Chung, Godfrey**, aged 51, joined the Company in January 2006, and is an executive Director and the Co-chairman of the Company. Mr. Mak has over 23 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. Zhang Fusheng**, aged 41, was appointed as an executive Director and the chief executive officer on June, 2013. Mr. Zhang has extensive working experience in management and leadership role. Mr. Zhang was an executive director of Global Biochem Technology Group Company Limited (Stock Code:809) during the period from September 2010 to March 2012, a company with its share listed on the Stock Exchange since March 2001. Mr. Zhang is responsible for overseeing the operations of the Group. He hold a master's degree of Nanyang Executive MBA from Nanyang Technological University.

**Mr. Wang Hon Chen**, aged 53, joined the Company in January 2007 and is the general manager of the Changchun Yicheng. Mr. Wang has over 26 years of experience in the production field. Mr. Wang is responsible for overseeing the operations of Changchun Yicheng, 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 51, 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 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 53, 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. Huang Shao Ru**, aged 41, graduated from school of Distance Education of Beijing Jiaotong University majoring in business and administration and has over 21 years of managerial and international trade experience. Mr. Huang has been serving as the director and general manager of Xinhua Industry Co., Ltd., Shenzhen, Goangdong Since January 2003. Mr. Huang was appointed as an independent non-executive Director of the Company on 2 April 2013.

#### **Senior Management**

**Mr. Cong Yue Sheng**, aged 57, joined the Company in December 2013, is the general manager of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited. He has over 35 years of mining and mine management experience in China.

**Mr. Wong Choi Chak**, aged 49, 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 20 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.

**17. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the head office and principal place of business of the Company in Hong Kong at Suite No.3, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Hong Kong; (ii) on the website of the Company (<http://www.irasia.com/listco/hk/deteam>), and (iii) on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013 respectively and the interim report of the Company for the six months ended 30 June 2014;
- (c) the letter from the Board, the text of which is set out on pages 12 to 35 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 36 of this circular;
- (e) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 37 to 63 of this circular;
- (f) the material contracts as referred to in the paragraph headed “Material contracts” in this appendix;
- (g) the service contracts as referred to in the paragraph headed “Directors’ service contracts” in this appendix;
- (h) the written consents referred to in the paragraph headed “Experts and consents” in this appendix;
- (i) the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out in appendix II to this circular;
- (j) the letter from Ascenda in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on pages 127 to 130 of this circular;
- (k) the letter, valuation certificate and the associated valuation report from Independent Property Valuer, the text of which is set out in Appendix III of this circular; and
- (l) this circular.

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## NOTICE OF EGM

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# DeTeam Company Limited

## 弘海有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 65)

### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the “**EGM**”) of DeTeam Company Limited (the “**Company**”) will be held at 3:00 p.m. on 20 October 2014 at Suite No. 3 31st Floor, Sino Plaza 255-257 Gloucester Road, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

#### ORDINARY RESOLUTIONS

1. **“THAT** subject to and conditional upon, the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of, and permission to deal in, the issued ordinary shares of the Company consolidated in the manner as set out in paragraph (a) of this resolution below (the “**Share Consolidation**”):
  - (a) with effect from the day immediately following the date on which this resolution is passed, being a day on which shares are traded on the Stock Exchange, every five (5) issued and unissued ordinary shares of HK\$0.10 each in the share capital of the Company be consolidated into one (1) share of HK\$0.50 (each a “**Consolidated Share**”), such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company;
  - (b) all fractional Consolidated Shares be disregarded and not be issued to the holders of the existing shares of the Company but all fractional Consolidated Shares be aggregated and, if possible, sold for the benefit of Company; and
  - (c) the directors of the Company (the “**Directors**”) be and are generally authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the foregoing arrangements for the Share Consolidation.”
2. **“THAT**
  - (a) subject to and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Open Offer (as defined below) (including the absence of excess application) and the transactions contemplated thereunder be and are hereby approved;

For the purpose of this resolution, “**Open Offer**” means the proposed issue by way of open offer of 229,238,583 new Consolidated Shares as offer shares (the “**Offer Shares**”) at a subscription price of HK\$0.50 per Offer Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear

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## NOTICE OF EGM

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on the date by reference to which entitlement under the Open Offer will be determined (other than those shareholders (the “**Prohibited Shareholders**”) with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of one (1) Offer Share for every one (1) Consolidated Share then held and otherwise pursuant to and subject to the fulfillment of the conditions of the terms set out in the underwriting agreement (the “**Underwriting Agreement**”) (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) dated 29 July 2014 and made between the Company and Hong Kong Hang Kei Company Limited as underwriter (the “**Underwriter**” or “**Hong Kong Hang Kei**”);

- (b) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to the Open Offer notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to the Prohibited Shareholders as they deem necessary, desirable or expedient to having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;
  - (c) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by Hong Kong Hang Kei) be and are hereby approved, confirmed and ratified;
  - (d) the absence of any arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and
  - (e) any Director be and is hereby authorised to sign or execute such documents and do all acts and things in connection with the allotment and issue of the Offer Shares, the implementation of the Open Offer and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as he may in his discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders.’
3. “**THAT** the terms of the application for a waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive Director (the “**Executive**”) of the Corporate Finance Division of the Securities and Futures Commission to Hong Kong Hang Kei pursuant to Note 1 on the Dispensations from Rule 26 of the Code (the “**Takeovers Code**”) on Takeovers and Mergers of Hong Kong from an obligation to make a general mandatory offer for the shares of the Company not already owned by Hong Kong Hang Kei and the parties acting in concert with it as a result of the underwriting obligation in accordance with the terms of the Underwriting

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## NOTICE OF EGM

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Agreement be and are hereby approved and the Directors be and are hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to or in connection with the Whitewash Waiver.’

By the order of the Board  
**DeTeam Company Limited**  
**Mak Shiu Chung, Godfrey**  
*Co-Chairman*

Hong Kong, 30 September 2014

*Registered Office:*

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

*Principal place of business in Hong Kong:*

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

*Notes:*

1. A member of the Company (“**Shareholder**”) entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or, if such Shareholder is a holder of more than one share, more proxies to attend and vote in his stead. A proxy need not be a Shareholder.
2. In order to be valid, the form of proxy must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
3. Where there are joint registered holders of any shares of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such holders be present at the EGM personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
5. Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM if the Shareholder so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. All resolution will be voted on by way of poll.